Development Finance Choices Guide

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British Columbia

Ministry of Municipal Affairs
Growth Strategies Office

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MINISTER'S MESSAGE

I take great pleasure in the publication of the *Development Finance Choices Guide*.

This guidebook is designed to assist local governments in choosing and designing development finance tools to fund infrastructure associated with growth. Development Cost Charges (DCCs) are one method. The encouraging response to the *DCC Best Practices Guide* (first published in 1997) prompted the preparation of this second companion guidebook.

The Choices Guide describes the tools available to BC local governments for financing growth-related infrastructure, outlines considerations in the choice of a particular tool and provides advice on the design and implementation of the various tools. Both local governments and developers should find the "organizational capacity" considerations very helpful.

Case study examples in the Guide draw on the experiences of different sized communities right here in British Columbia.

Thank you to the many members of the development community and local government staff who participated in the development of this document.

The Guide is also available on the Ministry of Municipal Affairs web site at www.marh.gov.bc.ca/GROWTH/ (under Publications). Please do not hesitate to contact ministry staff directly with questions or comments.

I hope you find this publication to be a valuable addition to your policy tool kit.

Cathy McGregor
Minister of Municipal Affairs

October, 2000

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1. INTRODUCTION

The financing of growth-related infrastructure is an important issue for local governments in British Columbia, particularly for those situated in high growth regions of the province. The current environment in which local governments make financing decisions is characterized by a number of realities which, taken together, make the provision of growth-related works quite challenging. Consider the following points:

- Senior government infrastructure grant programs assign a low priority to growth-related works.
- Taxpayers and utility users are, in general, not prepared to contribute to infrastructure which is required by development.
- Private sector developers demand a high level of transparency and accountability in the methods used by municipalities to determine benefits and assign costs.
- Development finance has evolved into one of the more complex areas of local government administration. The financial and legal stakes are high for all parties involved.

Along with new challenges, however, have come new opportunities. Recent amendments to the *Local Government Act* have provided new powers and increased flexibility to local governments. The various changes, taken as a whole, have enabled local governments to become more innovative in their use of new capital finance tools, and more creative in their application of existing tools.

The challenges and opportunities facing local governments in the area of development finance have created the need for resources to which local government practitioners can turn for information on finance options available, and for guidance in making finance decisions. This *Development Finance Choices Guide* is presented as one such resource.

Purpose:

The *Development Finance Choices Guide* explores the central question of how local governments select which tools to use to finance the infrastructure required to accommodate growth.

In addressing this question, the *Guide* sets out to:

- identify and describe the finance tools for growth-related infrastructure available to local governments in British Columbia;
- outline considerations that should be taken into account by local governments when selecting alternative tools; and,
- provide guidance to local governments with respect to the design and implementation of key tools.

It is hoped that the *Guide* will be of interest to a variety of audiences, including local government elected officials and members of the development community. First and foremost, however, the *Guide* has been written as a resource for local government practitioners.

Finally, it should be noted that the *Guide* focuses on the financing of off-site infrastructure requirements. The *Guide* is not concerned with the financing or provision of on-site works and services required under section 938 of the *Local Government Act*.

Background:

In December, 1995, the Ministry of Municipal Affairs began a multi-year process to review the topic of local government development finance. The review was initiated in response to concerns expressed by a number of interests, including local governments themselves and the development community.

A Development Finance Review Committee was established to set priorities for the review, and to oversee the entire process. A number of key stakeholder organizations are represented on the Committee, including:

- the Urban Development Institute;

- the Canadian Home Builders' Association of BC;
- the Union of British Columbia Municipalities;
- the BC Real Estate Association; and,
- the Planning Institute of BC.

The Committee is chaired by the Assistant Deputy Minister (Local Government) from Municipal Affairs.

Soon after its inception, the Committee decided that development cost charges (DCCs) should be the focus of early study. The Committee called for a resource document designed to foster a more rational, equitable and consistent approach to DCCs throughout the province. The *Development Cost Charge Best Practices Guide*, published by the Ministry in 1997, was the resource document created.

The encouraging response to the *DCC Best Practices Guide* prompted the Committee to consider other needs in the area of local government development finance. More specifically, the success of the *Best Practices Guide* paved the way for the Committee to begin work on a second guide, intended to assist local governments in selecting and implementing appropriate development finance tools. This second guide, presented here, is titled the *Development Finance Choices Guide.*

Format:

The *Development Finance Choices Guide* is presented in eight separate sections.

- Section 2 begins with a broad discussion of the impact of growth on local government services. Growth-related infrastructure, the cost of which is often transferred to growth itself, is distinguished from other local services. A three-step decision-making process for dealing with the financing of such infrastructure is introduced.

- Section 3 focuses on step one in the decision-making process: defining a broad approach to development finance. The policy questions to consider in defining an approach are outlined, and the important link between the broad approach and the community's policy framework is explored. Comments on the actual approaches taken by governments are offered, and the key players involved in setting an approach are identified.

- Section 4 deals with step two of the process - the consideration of key factors which influence the implementation of a government's broad approach. Factors related to characteristics of the particular development project and the nature of the development industry are also reviewed.

- Section 5 addresses step three of the process: reviewing the individual tools. This section introduces and categorizes thirteen development finance tools available to local government. The text on each tool includes the legislative authority for the tool, a description of the tool, comments on implementation and a discussion on the tool's application to the development of growth-related infrastructure.

- Section 6, titled *Making Choices*, evaluates each against a set of development considerations. The purpose of this section is to help local governments understand which tools are well suited to different circumstances. Best practices associated with each tool are identified. A summary table is provided for easy reference.

- Section 7 features development finance case studies from three municipalities: the Town of Ladysmith; the City of Kelowna; and, the City of Surrey. The case studies attempt to illustrate how, in practice, local governments choose different combinations of finance tools to meet different circumstances.

- Section 8 concludes the *Guide* with a review of its key points.

Ministry of Municipal Affairs:

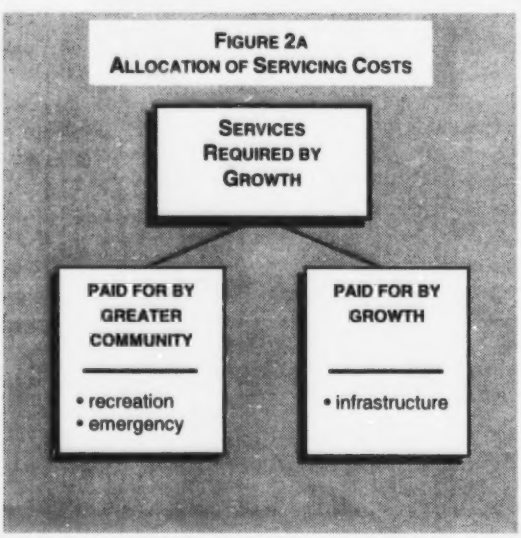
The *Development Finance Choices Guide* is published by the Growth Strategies Office of the Ministry of Municipal Affairs. A digital copy of the *Guide* is available on the Ministry's web-site (www.marh.gov.bc.ca/GROWTH).

2. LOCAL GOVERNMENT FINANCE AND GROWTH

Any discussion of local government finance and growth must recognize, as a starting point, the reality that growth puts pressure on local services. As growth occurs, local governments need to build new infrastructure and expand the delivery of many services, including recreation, regulatory, corporate and emergency services. All areas of local government activity are affected by growth.

Who should pay for the services required by growth? The answer to this question will depend, in large part, on a community's values and attitudes with respect to development. The answer will also, however, depend on certain practical considerations, such as whether or not it is even possible to attribute costs to specific beneficiaries. (Development Cost Charges are based on the principle of "user-pay"- that infrastructure should be paid for by those who use and benefit from it).

The combination of community values and practical considerations leads, invariably, to a situation in which the total cost of services required by growth is shared between growth itself and the community as a whole. Local governments choose, based on the values and practicalities, which services are to be paid for by development, and which are to be paid for by the greater community.



This allocation of servicing costs is depicted in figure 2A. As illustrated, the cost of new growth-related infrastructure is, in many cases, imposed on development. The cost of other activities, such as emergency and recreation services, normally falls to the community as a whole.

This *Guide* is not concerned with the cost, or financing, of activities such as emergency and recreation services that are paid for by the greater community. The *Guide* focuses, instead, on the new infrastructure required, and paid for, by growth. Which finance tools do local governments use to provide the new growth-related infrastructure? How do local governments choose which tools are best suited to different circumstances? These are the types of questions addressed in the *Guide*.

It is important at this point to emphasize a key difference in terminology — specifically, the difference between "paying for" a service and "financing" a service. The party which bears responsibility for the cost of a service is deemed to pay for that service. The party which pays for the service, however, is not necessarily the same party that finances the service. It is often the case that a second party will finance, or front-end, the cost of the service. This second party then recovers, through regular payments over a fixed period of time, monies for the service from the party which is responsible for the cost. This difference in terminology is important to understand when reading this *Guide*, which is concerned with the methods available to local governments to finance growth-related works.

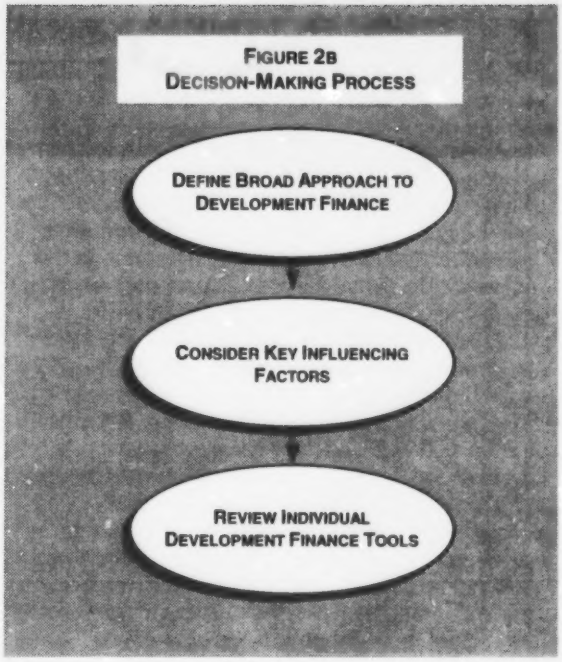
Financing Infrastructure:

The *Local Government Act* makes available to local governments a wide variety of finance tools to assist in the development of growth-related infrastructure. In providing such a wide range of tools, the *Act* anticipates that local governments will make choices. The *Act* anticipates that local governments will consciously consider and choose those tools which, alone or in combination with others, best serve particular needs and situations.

A clear appreciation of the pros and cons of each tool is necessary in order to make the right choices. A knowledge of the specific tools is not, however, all that is required to make good financing decisions. The process of determining how to finance growth-related works is a strategic exercise that involves three distinct steps, only one of which – the third – focuses on the specific finance tools. Before considering the specific tools, a local government needs to:

- define its broad approach to development finance; and,
- consider some key factors that influence how the broad approach is applied in specific cases.

The three-step decision-making process, shown graphically in figure 2B, is the focus of sections 3 through 6 of the *Guide*.



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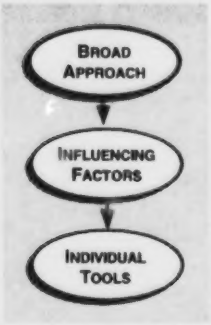
3. BROAD APPROACH



Each local government has a fundamental philosophy with respect to development and the government's role in facilitating development. The broad approach to the financing of growth-related infrastructure that the government adopts reflects this fundamental philosophy. Defining this broad approach is the first step in the decision-making process, and is the focus of this section of the *Guide*.

The section begins by reviewing the types of questions a local government needs to address in order to define its approach. The important link between the broad approach and the community's policy framework is then explored. The actual types of approaches taken by governments are discussed, and a review of the key players involved in designing an approach is provided.

Broad Approach to Development Finance:

Defining a broad approach involves the consideration of several policy questions related to growth management. A list of these questions includes the following examples:

- How much growth can the community expect in the future? Is this expected level the optimal level from the community's perspective? What are the community's obligations, with respect to accommodating future growth, to the larger region?
- What types of growth are preferred or not preferred from an economic development perspective? What incentives or disincentives should be considered to attract preferred types and/or discourage others?
- Where should future growth be directed? Where should growth not be directed?
- What local infrastructure exists today? What additions to infrastructure will be required to accommodate growth? Which works are required as upgrades for the existing population? When will new works be required? Can the new works be phased?
- What is the cost of the new infrastructure? Who benefits from the works? Who should pay for the works? What does the community consider to be equitable? Where private parties pay for services, should the parties be expected to finance, or front-end, the costs? What is the community's capacity for financing new works?
- Who should bear the risk associated with front-ending infrastructure costs? What is the community's tolerance for risk?

Policy Framework:

There is a clear and direct connection between the local government's broad approach to development finance and the local government's policy framework. The questions which are explored in defining the broad approach are the same questions which are considered in developing the policy framework. Moreover, the process through which the framework is created provides the setting in which these important policy questions are addressed. (A typical local government policy framework is outlined in figure 3A.)

The development of a policy framework, it

FIGURE 3A
LOCAL GOVERNMENT POLICY FRAMEWORK

A typical policy framework includes the following strategic, land-use, economic and financial documents:

- ***Regional Growth Strategy*** **— These plans, adopted under section 850 of the *Local Government Act*, provide direction over all facets of regional growth and development.**

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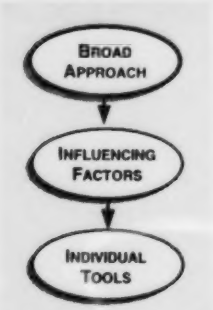
3. BROAD APPROACH



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(CONTINUED ON NEXT PAGE)

FIGURE 3A
LOCAL GOVERNMENT POLICY FRAMEWORK (CONTINUED)

- *Official Community Plan (OCP)* — The OCP, which is consistent with the regional growth strategy, sets out the broad growth-management policies of a community. It projects future growth levels, and indicates where growth will be accommodated.

- *Comprehensive Development Plan (CDP)* — A CDP is a detailed plan for future development in a specific area of a municipality. A CDP considers:

  - existing levels of development
  - future expected growth
  - infrastructure requirements and costs related to the requirements
  - the means by which infrastructure requirements are to be financed

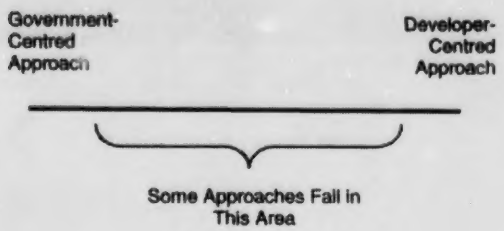
- *Strategic Servicing Plan (SSP)* — A SSP is similar to a CDP, but broader in scope. A SSP addresses the key questions related to the role of local government in service delivery. It considers the types of services that the local government should be providing to the community, and the government's role in providing and financing services required by growth.

- *Economic Development Strategy* — An economic development strategy establishes the objectives and policies for the economic growth and diversification of a community or region.

- *Financial Plan* — This plan, required under the *Local Government Act*, outlines operating and capital expenditures for each year over a five year period. Infrastructure requirements for existing populations and growth are included. Regional districts have a capital expenditure program which does the same thing.

should be noted, is a fluid, ongoing process. The policy documents within the framework reflect the values and attitudes of the particular community. As these values and attitudes change, so must the policy documents. And each time the documents are revisited, the broad approach to the financing of growth-related infrastructure is also revisited.

FIGURE 3B
BROAD APPROACHES SPECTRUM

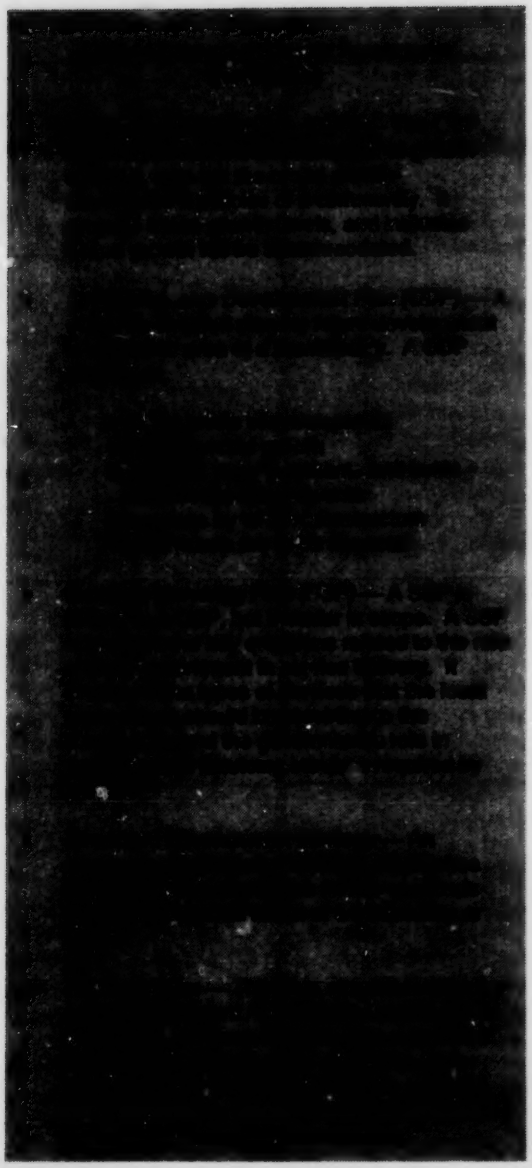


Alternative Approaches:

Figure 3B presents a "broad approaches spectrum". At one end of the spectrum is the government-centred approach. Under this approach, a local government chooses to assume responsibility for financing the infrastructure required by growth. The government recovers its front-end expenditures from the developers and/or new property owners who are deemed to benefit from the works.

At the other end of the spectrum lies the developer-centred approach. This approach is one in which the local government chooses to avoid any direct involvement in the financing of growth-related infrastructure. Developers of projects that require the infrastructure are expected to finance the works using their own resources. The local government serves as a collection agent, collecting payments on behalf of developers from future beneficiaries of the infrastructure.

It is the local government which chooses which type of broad approach to the financing of growth-related infrastructure it will adopt. In practice, some local governments choose an approach that falls on the spectrum somewhere between the government-centred and developer-centred models. In many instances, local governments will alternate between the two models – or variations of them – depending on the particular set of circumstances. For example, in cases which involve one large, experienced firm, a local government may follow a developer-centred approach and transfer responsibility for financing the works to the developer. In cases which involve several small



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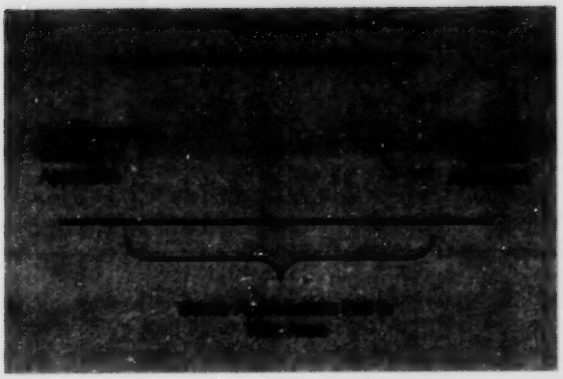

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firms, the same local government may adopt a government-centred approach and finance all of the works itself. This practice of alternating between the different approaches is quite pragmatic, and not uncommon.

Players Involved:

There are four different players involved in defining the local government's broad approach:

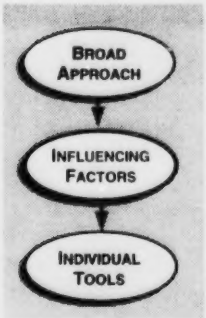
- *Council or Regional District Board* — The Council or Board, as the community's governing body, plays the central role in the policy process through which the local government's broad approach is defined. Council leads all policy discussions and makes the final policy decisions.

- *Senior Staff* — Senior staff are instrumental in initiating and facilitating the policy process. Staff members also act as advisors to Council in addressing the key questions that arise in the process, and as the implementers of the broad approach that is defined.

- *Citizens* — Local governments are increasingly recognizing the right of citizens to play an active role, beyond the electoral process, in making the decisions that affect their communities. In keeping with this view, citizens participate directly in discussing the issues and formulating the policies on which the local government's broad approach is based. This approach is, after all, intended to reflect the values an attitudes of the community.

- *Development Community* — The broad approach adopted by a local government impacts the development community in a direct and real way. Representatives of this community are entitled to participate in the policy discussions that form the basis of the approach.

4. INFLUENCING FACTORS



Defining a broad approach to development finance – the first step in the decision-making process – is a critical task for a local government to undertake. The broad approach sets the tone for how the government will deal with the need for new growth-related works.

It is important to recognize that the broad approach, while useful as a general guide, is not a prescriptive strategy to be applied blindly in every development case. The specific circumstances surrounding different projects often require a local government to be pragmatic, and to exercise judgement and flexibility in implementing its broad approach. Indeed, as was noted in the previous section, the requirement to be pragmatic and flexible may result in a local government alternating between the government-centred and developer-centred models.

It is possible to identify a series of key factors which influence the implementation of the local government's broad approach in different cases. These factors relate to:

- the characteristics of the particular development project; and,
- the nature of the development industry.

These factors, which are summarized in figure 4A, are explored in this section of the *Guide*.

Characteristics of Development:

Consider the following key characteristics:

- *Type of development* — In simple terms, developments can be characterized as infill or greenfield. Infill developments involve the development or re-development of existing lots which have some degree of servicing in place. Greenfield developments involve the build-out of new areas where services typically do not exist.

  Given their lack of existing infrastructure, greenfield developments can be expensive to service. The party which is made responsible for financing the new infrastructure must be of a large enough size to secure the financing, and to assume the risk associated with cost recovery. The amount of financing required, and the degree of risk associated with cost recovery, are two important factors that local governments need to consider in determining how to approach the project.

FIGURE 4A
SUMMARY OF INFLUENCING FACTORS

CHARACTERISTICS OF DEVELOPMENT:

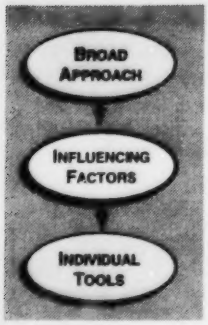
- **type of development**
- **value of project**
- **structure of land ownership**
- **timing of infrastructure required (relative to development)**
- **benefit of infrastructure**

NATURE OF DEVELOPMENT INDUSTRY:

- **industry structure**
- **expertise**

- *Value of project* — The value to the local government of the development project may influence the approach taken. Local governments may, for example, be prepared to assist developments that are expected to provide a long-term economic or social benefit to the community or region. Consider a mixed-use, comprehensive development that promotes sustainable living, or a housing development that includes a certain percentage of non-market units. Local governments may be prepared to front-end costs and assume risks associated with cost recovery for these types of projects. Conversely, local governments may require developers of

4. INFLUENCING FACTORS



Defining a broad approach to development finance – the first step in the decision-making process – is a critical task for a local government to undertake. The broad approach sets the tone for how the government will deal with the need for new growth-related works.

It is important to recognize that the broad approach, while useful as a general guide, is not a prescriptive strategy to be applied blindly in every development case. The specific circumstances surrounding different projects often require a local government to be pragmatic, and to exercise judgement and flexibility in implementing its broad approach. Indeed, as was noted in the previous section, the requirement to be pragmatic and flexible may result in a local government alternating between the government-centred and developer-centred models.

It is possible to identify a series of key factors which influence the implementation of the local government's broad approach in different cases. These factors relate to:

- the characteristics of the particular development project; and,
- the nature of the development industry.

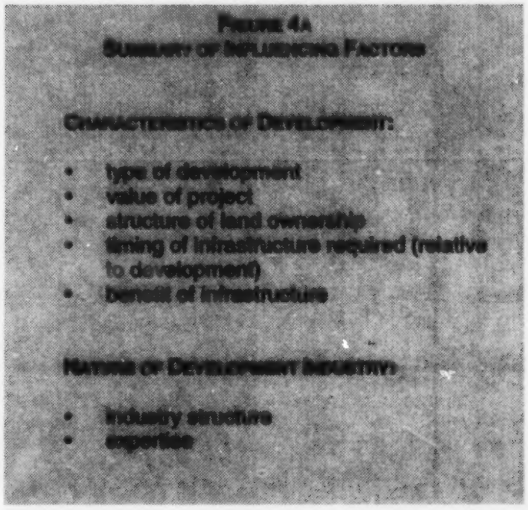
These factors, which are summarized in figure 4A, are explored in this section of the *Guide*.

Characteristics of Development:

Consider the following key characteristics:

- *Type of development* — In simple terms, developments can be characterized as infill or greenfield. Infill developments involve the development or re-development of existing lots which have some degree of servicing in place. Greenfield developments involve the build-out of new areas where services typically do not exist.

  Given their lack of existing infrastructure, greenfield developments can be expensive to service. The party which is made responsible for financing the new infrastructure must be of a large enough size to secure the financing, and to assume the risk associated with cost recovery. The amount of financing required, and the degree of risk associated with cost recovery, are two important factors that local governments need to consider in determining how to approach the project.



- *Value of project* — The value to the local government of the development project may influence the approach taken. Local governments may, for example, be prepared to assist developments that are expected to provide a long-term economic or social benefit to the community or region. Consider a mixed-use, comprehensive development that promotes sustainable living, or a housing development that includes a certain percentage of non-market units. Local governments may be prepared to front-end costs and assume risks associated with cost recovery for these types of projects. Conversely, local governments may require developers of

other projects to finance their own works.

The value that a local government attaches to a particular development will vary by community and will depend on the community's broader planning and social development goals. Each local government needs to assess development projects in terms of value to the community and decide, based on the assessments, the best approach to apply in any given case.

- *Structure of land ownership* — The structure of land ownership refers to the number of property owners involved in a proposed development. A developer-centred approach may be better suited to projects which involve a small number of owners; a government-centred approach may be needed when there are many owners involved.

- *Timing of infrastructure requirements* — Different developments will have different needs with respect to the timing of required services. Most greenfield projects will need a high level of servicing before actual development can begin. Some developments will allow services to be provided in phases that stretch over a relatively long period of time. Overall, timing is an important consideration that has major cash flow implications for local governments and developers. These cash flow implications may influence the government's approach in different cases.

- *Benefit of infrastructure* — The infrastructure required to facilitate new development will vary in each case in terms of benefit. In a few cases, the infrastructure will be deemed to solely benefit growth, whereas in other cases, the works will be determined to benefit both growth and existing development. In these latter cases, a local government may decide that a government-centred approach would be the fairest way to proceed.

Nature of Development Industry:

Good development within a community involves a partnership between local government and the development industry. Both parties must have an understanding of each other's objectives, abilities and methods of doing business.

Forging a partnership with the development industry is much easier to accomplish when the local government understands the nature the industry which is active in the particular community. Consider the following factors related to the nature of the industry:

- *Industry structure* — In some communities, the development industry is relatively homogeneous in terms of the size of companies. In other places, there is a wide range of differently-sized companies, including both large and small firms. Larger companies, with greater resources, are normally more able and, in some cases, more willing to finance infrastructure costs. A developer-centred approach may work well with these companies.

  Another consideration is the number of firms. In some areas the development industry is dominated by a few development companies, while in other centres there are numerous competitors. In centres where a few firms dominate, local governments may be able to apply a developer-centred approach, under which single developers would be required to front-end infrastructure costs. In places with numerous firms, local governments would likely need play a larger role in the direct financing of new works.

- *Expertise* — The development industry's level of expertise has implications for a local government's approach. For example, a developer-centred approach might be problematic in a community where the development industry does not have the expertise or experience necessary to front-end the cost of major works.

  In another community, the government-centred approach may not allow a more sophisticated firm to apply its full creativity or abilities to a development. A local government that, through its choice of such an approach, stifled this creativity and these abilities would not optimize the benefits of the development to the community.

5. DEVELOPMENT FINANCE TOOLS

After a local government has defined its broad approach, and considered the key factors which influence the application of the broad approach, the government can turn its focus to the specific development finance tools. This section of the *Guide* begins the review of the individual tools.

Thirteen development finance tools available to local government are introduced and described in the text that follows. The list of tools includes:

- development cost charges;
- local improvements;
- specified areas;
- user fees and charges;
- short-term borrowing;
- long-term borrowing;
- latecomer charges;
- development works agreements;
- DCC credits and rebates;
- density bonusing;
- comprehensive development agreements;
- public-private partnerships; and,
- public-public partnerships.

Format:

A common format is used to outline each tool. The format consists of five components:

- legislative authority for the tool;
- description of the tool;
- implementation of the tool;
- application of the tool to the development of; growth-related infrastructure; and,
- additional comments.

Categories of Tools:

The order in which the tools are presented reflects the grouping of the tools into four different categories. These categories include:

- *Cost recovery tools* — tools used by local governments to recover capital expended on growth-related infrastructure. Cost recovery tools include development cost charges, local improvements, specified areas and user fees and charges.

- *Source of capital* — tools used by local governments to raise or obtain capital required to finance new works. Sources of revenue include short-term borrowing and long-term borrowing.

- *Developer-build agreements* — tools that local governments use to transfer the responsibility for financing growth-related works to developers. Developer-build agreements include latecomer charges, development works agreements, DCC credits and rebates, density bonusing and comprehensive development agreements.

- *Partnership agreements* — arrangements under which growth-related works are developed and financed cooperatively by different combinations of public and private bodies. Partnership agreements include public-private partnerships and public-public partnerships.

Note that certain tools can fit into one or more category depending on how the tools are used. For example, latecomer charges and development works agreements, normally used as developer-build agreements, can be used as cost recovery tools to recover the cost of works that are financed directly by local governments. DCCs are used by governments as a cost recovery mechanism, but DCC reserves are used as a source of capital for future expenditures.

For the purpose of simplicity, each tool has been assigned to the one category within which, based on standard usage, it normally falls.

The categorization of tools is shown graphically in figure 5A. The thirteen tools described in this section are located within the white circle in the figure. Additional tools, which are considered as

less relevant or as ways to implement other tools, are located outside of the circle.

The two categories at the top of the figure – cost recovery and source of capital – contain tools that support a government-centred approach to development finance. Local governments that follow a government-centred approach would choose from the tools in these two categories. Local governments that have adopted a developer-centred approach would choose from the tools in the developer-build category. The tools under the partnership agreements category may support either approach depending on the specific development circumstances.

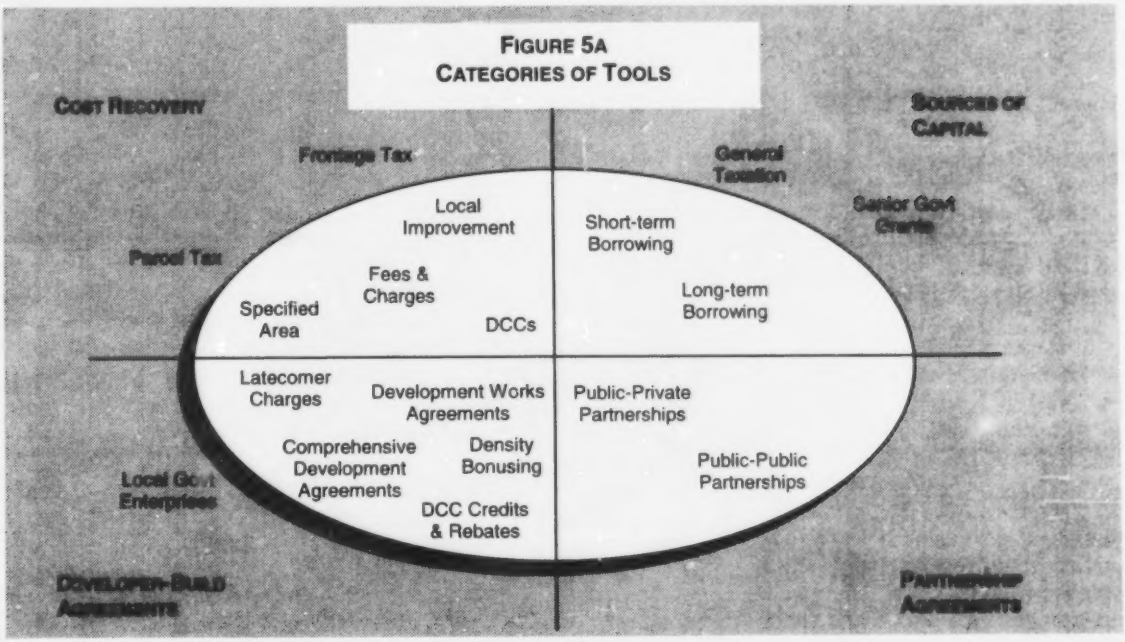


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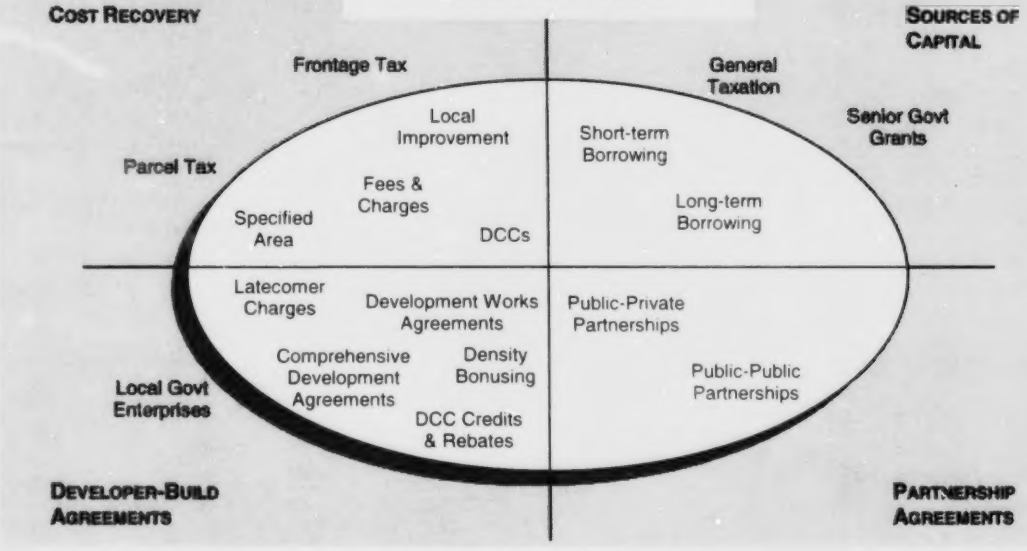
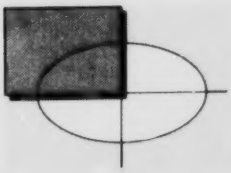
FIGURE 5A
CATEGORIES OF TOOLS



5.1 DEVELOPMENT COST CHARGES



Legislative Authority:

Local Government Act, sections 933 – 937. See also B.C. Reg. 166/84, Development Cost Charge (Installments) Regulation.

Description:

Development cost charges (DCCs) are designed to assist local governments in recovering monies expended on growth-related infrastructure. DCCs may be imposed to recover costs related to the provision, construction, alteration or expansion of the following services:

- highways, other than off-street parking;
- sanitary sewers;
- water;
- drainage; and,
- parkland acquisition and improvement.

DCCs are one-time charges levied against residential (single and multi-family), commercial, industrial and institutional developments that impose a capital cost burden on the local government. DCCs may be specified according to different sectors as they relate to different classes and amounts of development. In all, however, the principle of equity requires that charges be similar for all developments that have a similar impact on servicing.

DCCs are payable by developers at the time of subdivision approval in cases where such approval is required. Where subdivision is not required, DCCs are payable at the time of building permit approval.

Implementation:

DCCs must be implemented by bylaw, which must be approved by the Inspector of Municipalities. The development of the bylaw involves the consideration of a number of important policy issues, including:

- the appropriate role of the public in providing input into, and /or review of, the bylaw;
- the geographic extent of the DCCs;
- the time frame of the DCC program;
- the categories of development to be charged;
- development projections;
- the units on which to base the charges;
- the eligibility of capital projects;
- the degree of cost recovery possible; and,
- the setting of the municipal assist factor.

Local government staff, with the benefit of public input, develop the bylaw and the proposed rates. The bylaw receives first reading by the Council or Regional District Board, after which changes may be made. After second and third reading, staff forward the bylaw and supporting documentation to the Inspector of Municipalities. Once the Inspector has approved the bylaw, it is returned to Council for fourth and final reading.

Application:

DCCs are a common cost recovery tool, used in most high-growth municipalities around the province. DCCs are not, however, considered an appropriate tool for every development situation. For example, DCCs, when used as a cost recovery mechanism, may not be the best way to finance the extension of infrastructure to service greenfield developments. Consider the following points:

- Infrastructure for new areas often must be constructed before sufficient DCC revenue from development can be collected. Without sufficient DCC revenue, the local government is required to borrow to pay for the projects. The debt servicing charges incurred by the local government in paying for the infrastructure cannot be recovered using DCCs — at present (Summer 2000), the *Local Government Act* does not allow local governments to include interest charges in DCC rates.

- If development projections are overly optimistic in terms of the timing and/or amount of development in a newly-serviced

area, the local government will not collect enough DCC revenue to fully offset the infrastructure costs already incurred.

DCCs may be more palatable when used as a source of capital. Consider a case which involves the upgrading of existing infrastructure. Since the service already exists, there is some existing capacity to accommodate growth before new infrastructure projects are required. DCC revenues can accumulate in a reserve fund before the infrastructure work is necessary. When the work is necessary, the DCC reserves can be used as a source of capital, rather than as a method of cost recovery.

In addition to the concerns related to using DCCs to greenfield cases, there are certain limitations inherent in DCCs that are important to note. First, DCCs cannot be charged

- against any building which is used solely for public worship;
- against a residential (infill) building which contains less than four dwelling units; and,
- where the value of the work covered by a building permit does not exceed $50,000.

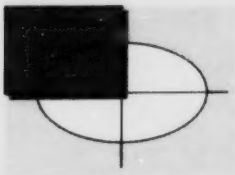
Second, DCCs, as noted earlier, can only be used to finance the construction of highways (other than off-street parking), sanitary sewers, water, drainage and parkland acquisition and development. DCCs cannot be used in connection with other growth-related infrastructure such as fire halls, libraries and recreation centres.

Third, section 934(4)(d) of the *Local Government Act* states that, in setting DCCs, a local government must consider whether the charges will deter development, or discourage the construction of reasonably-priced housing or the provision of reasonably-priced serviced land. Where infrastructure costs are high, the use of DCCs may force the local government to apply a significant assist factor in order to keep the DCCs down to acceptable levels.

Additional Comments:

Local governments interested in learning more about DCCs and their application should review the *Development Cost Charge Best Practices Guide* (1997), published by the Ministry of Municipal Affairs and available on the Ministry web-site: http://www.marh.gov.bc.ca.

5.2 LOCAL IMPROVEMENTS



Legislative Authority:

Local Government Act, sections 622 – 645; section 500.

Description:

Local improvements are infrastructure projects undertaken by a municipality to benefit a specific neighbourhood or area of the community. Section 623 lists a variety of projects that a municipal Council may undertake as local improvements. Included in this list are:

- street improvements;
- bridge developments;
- sewer and water works; and,
- park acquisitions and improvements.

The cost of work undertaken as a local improvement is front-ended by the municipality, then recovered from property owners within the local improvement area using a parcel tax. The parcel tax may be based on a single amount for each parcel or the taxable frontage of the parcel. Owners may commute the charges imposed on them for payments in cash.

The municipality may collect 100% of the cost of the improvement from the benefiting owners. In many cases, however, a municipality will contribute a portion of the cost from general revenues.

The infrastructure costs incurred by the municipality (and later recovered) can be financed in a few different ways. First, the municipal government can borrow the funds, subject to the counter-petition provisions in sections 629 – 632. Second, the municipality can use monies from its own local improvement fund, established under section 500, to pay the owners' portion. These monies must be repaid with interest.

Finally, in the event that the municipality chooses to contribute to the cost of the local improvement, the Council may pay all or some of the municipality's portion in any year out of monies provided for in the financial plan.

Implementation:

In the case of a town, city and district municipality, local improvements may be proposed by Council or undertaken in response to a petition. In the case of a village municipality, local improvements can only be initiated by the community.

Local improvements proposed by a Council are subject to the counter-petition provision in section 630. If a majority of property owners representing at least 50% of the value of the benefiting parcels petition Council not to proceed with the work, the particular improvement cannot be undertaken and cannot be proposed again for at least one year.

Local improvements initiated by property owners must be proposed using a petition signed by at least two-thirds of owners liable to be charged. The properties of the proponents must, together, represent at least 50% of the value of all benefiting properties.

Application:

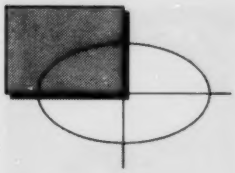
Local improvements are designed to assist municipalities in adding services to established areas. Local improvements are not the best tool, and were never intended to be used, to provide growth-related infrastructure to new developments. Specified areas are more appropriate for growth-related infrastructure.

In the past, local improvements were used in place of specified areas because, under the *Local Government Act*, only local improvement parcel taxes could be commuted for payments in cash. The legislation has since been changed to allow both local improvement and specified area parcel taxes to be commuted.

Additional Comments:

None.

5.3 SPECIFIED AREAS



Legislative Authority:

Local Government Act, sections 646 – 651. See also 629 – 632; 363; 500.

Description:

Section 646(1) allows a municipal Council, by bylaw, to undertake any service for the special benefit of a specified area of the municipality. The cost of the service provided must be borne by the property owners within the specified area, and/or the users of the service.

The cost of the service can be recovered by Council using one, or a combination of, the following means:

- an *ad valorem* tax on the land; improvements or both;
- a parcel tax; and,
- other fees or charges as per section 363.

A parcel tax imposed on beneficiaries may be commuted for a payment in cash.

The infrastructure costs incurred by Council (and later recovered) are normally financed either through conventional long-term borrowing, or using appropriations from the municipality's local improvement fund. Section 648(3) requires that where costs are financed in one of these two ways, the entire capital cost of the service must be borne by the specified area (i.e., the community as a whole cannot contribute to the cost). The key exception to this rule relates to the cost of excess capacity that is built into the service. The municipality may pay this cost, or may allow a developer to recover the costs through a latecomer agreement.

Implementation:

Works provided to specified areas can, as with local improvements, be initiated by Council or by property owners in the proposed area. Where proposed by Council, the local improvement provisions in section 629 (Council initiative) and section 630 (counter petition) apply. Where requested by petition, the local improvement provisions in section 631 (petition to Council) and section 632 (sufficiency of petition) apply.

All works developed to benefit a specified area must be undertaken by bylaw.

Application:

Specified areas, in contrast to local improvements, are an effective tool for financing growth-related infrastructure. Consider the following points:

- Local improvements require a municipality to recover infrastructure costs using a parcel tax that is based on either a common rate for each lot, or the taxable frontage of each lot. In new development areas, the size of lots can vary significantly, as can their expected impacts on services. Moreover, taxable frontage (i.e., the amount of lot actually fronting a service) may not apply to all lots. Specified areas allow a municipality to recover costs using a combination of parcel tax, *ad valorem* taxes and other fees and charges. This feature of specified areas enables a municipality to recover costs in a way that requires beneficiaries to pay their fair portions.

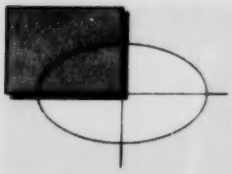
- Specified areas can be used in connection with any type of service. Local improvements are limited to particular services (see section 623).

- A specified area can be legitimately applied over a much larger area than can a local improvement. A sewage treatment plant, which might benefit growth and the existing population throughout the entire community, could be financed through a specified area that included most of the municipality.

Additional Comments:

None.

5.4 User Fees and Charges



Legislative Authority:

Local Government Act, section 363.

Description:

Recent changes (Bill 88, 1999) to the *Local Government Act* afford local governments new powers with respect to the setting and imposition of fees and charges. A local government may now impose fees and charges to help finance any service that the government provides.

Implementation:

Fees and charges must be established by bylaw, and must be clearly related to the cost of providing the service. Local governments are given significant discretion in determining the specific factors on which fees and charges are based. A local government is required, however, to make available to the public, on request, a report indicating how the fees and charges were determined.

Fees and charges may vary by category of persons, property, business and activity to reflect the different impacts on a service that different users may have. The categories of users, along with the different fees and charges, must be specified in the bylaw, as must any terms or conditions of payment.

The imposition of fees and charges is not subject to an elector assent process.

Application:

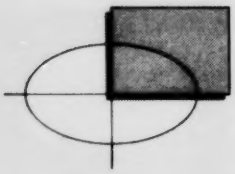
User fees and charges are normally collected to cover the operating costs associated with the provision of municipal services. Fees and charges can also be collected and used toward the financing of growth-related infrastructure. A local government, for example, can (conceivably) recover part of the cost of installing a sewer trunk through a connection charge that would be greater than the actual cost of providing a hook-up. Or, a local government might choose to include a portion for capital debt retirement in annual user fees charged to properties which are connected to the system.

Additional Comments:

Views on the appropriateness of using fees and charges to recover growth-related capital costs are mixed. Some observers would argue that user fees and charges are intended to assist local governments in financing operations, and that the use of fees and charges to recover growth-related capital expenditures would not be appropriate. Others would assert that fees and charges constitute a legitimate component of a capital financing strategy.

Notwithstanding this difference in views, it is likely that more local governments will consider using fees and charges to assist in the financing of growth-related infrastructure. The need to innovate and try new tools is, in the current fiscal environment, quite compelling.

5.5 SHORT-TERM BORROWING



Legislative Authority:

Local Government Act, section 334.4.

Description:

Section 334.4 allows local governments to borrow, for a period not to exceed five years, a maximum of $50 *per capita* for capital projects. The $50 *per capita* limit is the total amount, for all capital projects combined, that a local government may borrow at any one time.

Implementation:

All short-term capital borrowing must be approved by bylaw. Unlike long-term borrowing bylaws, however, short-term borrowing bylaws are not subject to the elector assent requirements of the *Act.*

Application:

Local governments make use of short-term borrowing in the following types of cases:

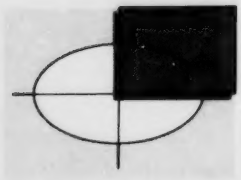
- To raise funds which may be required to supplement other monies that have been collected or dedicated to particular works. For example, a local government may find that its DCC reserves are not sufficient to finance a particular infrastructure project which cannot be postponed. The municipality may choose to "top up" the fund using short-term borrowing.
- For small capital projects, or small components of larger projects. A local government, for example, may construct a new recreation centre using capital reserves, only to find that an additional $150,000 is required for furnishings. The $150,000 could be raised through short-term borrowing.
- For small projects which cannot wait the thirty days required for the counter-petition process.

Given the $50 *per capita* ceiling on short-term capital borrowing, this development finance tool is limited in its value for financing growth-related infrastructure. Short-term borrowing is, however, useful in conjunction with other tools.

Additional Comments:

None.

5.6 LONG-TERM BORROWING



Legislative Authority:

Local Government Act, section 332, 335. See also sections 334, 335.1-5, 337, 338, 835, 1022.

Description:

Long-term borrowing is a tool used by local governments to front-end the cost of all types of new infrastructure.

Implementation:

Long-term borrowing is initiated through the adoption of a loan authorization bylaw as per section 335.1 of the *Local Government Act*. The bylaw sets out:

- the total amount to be borrowed;
- the purposes for which debt is to be incurred;
- the amount of debt allocated to each of the purposes; and,
- the maximum term for which debentures may be issued.

The maximum term of debt that may be authorized under the bylaw is the lesser of:

- thirty years; and,
- the reasonable life expectancy of the capital asset for which the debt is incurred.

The bylaw is subject to the counter petition process outlined in section 335.1 of the *Act*, and must also receive the approval of the Inspector of Municipalities.

Once the loan authorization bylaw has been adopted, the local government must raise the required monies. In most cases, monies are raised through the sale of debentures which must be separately authorized by a *security issuing bylaw* adopted under section 335.3 of the *Act*.

The Municipal Finance Authority (MFA) is, with few exceptions, the vehicle through which local government debentures are sold. A municipal request to issue debentures is submitted to the MFA Board of Directors through the municipality's Regional District; Regional Districts submit their own requests. The members of the MFA authorizes the issuance and sale of securities in an amount sufficient to meet the requests.

Application:

Long-term borrowing, as a tool used by local governments to directly finance new infrastructure, supports a government-centred approach to development finance. In most places, long-term borrowing is a necessary means of providing larger capital projects that cannot be financed using reserves or current revenues.

There are financial risks inherent in the use of long-term borrowing. When used in conjunction with certain cost recovery tools, such as a specified area or local improvement area, the risks to local governments are minimal. The recovery of all monies borrowed plus interest is, in most cases, assured by the use of these tools.

When used in conjunction with tools such as DCCs, however, the risks associated with long-term borrowing can be significant. If development does not occur as projected, the community as a whole will be liable for all outstanding debt payments. Further, the carrying costs (i.e., interest) incurred through long-term borrowing cannot be recovered through DCCs.

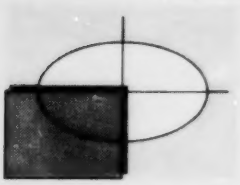
It should be noted that the length of repayment period proposed in a loan authorization bylaw should not exceed the useful life of the infrastructure project. A local government, for example, should not incur a debt of greater than 15 years on an infrastructure project that has a life cycle of 15 years.

Additional Comments:

The MFA presently has a triple-A credit rating with Moody's Investor Service and the Canadian Bond Rating Service. This rating, which is higher than that enjoyed by any province, results in excellent financing terms for local governments.

Local governments that would like additional information on long-term borrowing should contact the Municipal Finance Authority through its web-site (www.mfa.bc.ca).

5.7 LATECOMER CHARGES



Legislative Authority:

Local Government Act, section 939. For context, see section 938.

Description:

A latecomer charge is a charge imposed on properties which connect to, or use, excess or extended services.

Under section 939, a local government may require that the owner of land that is to be subdivided or developed provide excess or extended services — i.e., facilities that serve properties other than the land being developed. Where a local government makes this requirement, the cost of providing the excess or extended services must be financed by either the local government itself, or the owner of the land being developed. The party that front-ends the costs is entitled to compensation from latecomers who benefit from the excess or extended service. The compensation paid is the latecomer charge.

It should be noted that while the *Act* does provide for either the local government or developer to finance the excess or extended service, the intent of section 939 is that it is the developer who will make the front-end expenditure. The local government's role is to calculate the latecomer charges, impose them on latecomers, collect the latecomer revenues and forward them to the developer.

Section 939(8) requires a local government to include interest in its latecomer charge calculations. The specific rate of interest to be applied is established by bylaw and is a matter for Council to decide.

As per section 939(9), latecomer charges can only be collected for a maximum of ten years from the date on which the excess or extended services are completed. Latecomers who connect to the service after the ten year period are not required to pay their fair portion of the cost of providing the services.

Finally, as noted in section 939(3), latecomer charges can only be used to finance highways, water, sewage and drainage infrastructure works.

Implementation:

To implement a latecomer charge, a local government takes the following three steps:

- determines the proportion of the infrastructure cost which constitutes excess or extended service;
- determines the benefit of the excess or extended service to each parcel of land that will be served; and,
- imposes a latecomer charge on benefiting lands in relation to the benefit determined (see previous point).

The local government does not have to enter into a formal latecomer agreement with the developer unless the collection period agreed to by both parties is less than the maximum ten years provided by the *Act*. Nevertheless, it is recommended that formal agreements be drawn up in all cases in order to allow both sides to identify and fully understand the various administrative obligations that each has with respect to the collection and disbursement of monies.

Application:

Latecomer charges are typically used in cases where developers wish to build on "out-of-sequence" greenfield sites that are not contiguous to existing urban development. In exchange for granting development approval, the local government may require the developer to provide highway, water, sewage and/or drainage works with enough capacity to service not only the developer's own site, but also the future development properties situated nearby.

Developers who agree, as a condition of approval, to finance excess or extended services accept the risk that not all of the costs associated with the excess or extended portion will be recovered before the ten year period has expired.

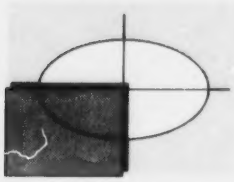
Additional Comments:

It is important to note that a developer does not have to apply to receive latecomer payments. Under section 938, a local government may establish a subdivision servicing bylaw that requires developers to provide a wide range of works and services in respect of the subdivision of land. If a developer, in accordance with the bylaw created in section 938, provides highway, water, sewage or drainage facilities that serve land other than the land being developed, the latecomer provisions automatically apply.

The automatic application of latecomer provisions is an important point. If a local government, through a bylaw under section 938, requires a developer to provide excess or extended services, the developer is entitled to compensation from latecomers. If the local government fails to collect latecomer revenues, the local government may incur what could be a significant liability.

Local governments interested in learning more about latecomer charges and their application should consult the *Latecomer Policy: User Manual*, prepared by the Township of Langley in 1988 (copies available through the Municipal Financial Services Branch of the Ministry of Municipal Affairs). In spite of its age, this document remains a very useful resource for local governments.

5.8 DEVELOPMENT WORKS AGREEMENTS



Legislative Authority:

Local Government Act, section 937.1. See also sections 630 and 632.

Description:

A development works agreement is an agreement between a municipality and a developer for the provision of off-site sewage, water, drainage and highway facilities to, or for the improvement of parkland in, a new development area of the community.

Section 937.1(2)(a) notes that the agreement can hold either the municipality or the developer responsible for providing (and financing) the works. The intent of the legislation, however, is that the works be provided by the developer, usually as a condition of development approval.

Where a developer provides the works, the municipality must allocate all or part of the cost of the works to the property owners in the area which is subject to the agreement (i.e., the development works area). The municipality collects the cost by imposing a one-time charge to the property owners. The property owners must pay the charge, including any interest that may have accrued, before they can obtain the various approvals and permits necessary for development. The actual charge is based on a formula set by the municipality. The charge varies by property to account for different levels of impact on services.

Implementation:

Development works agreements are established by bylaw. Each agreement must specify:

- the area that is the subject of the agreement (i.e., the development works area);
- the works that are to be provided;
- the party which is to provide each work; and,
- when each work is to be provided.

The agreement must also provide for the payment to the developer of the charges collected by the municipality from the property owners in the development works area.

Development works agreements can be proposed by Council or by the developer. Where proposed on Council's initiative, the bylaw must receive the assent of the electors in the development works area, or must satisfy the counter-petition provision in section 630 in order to proceed. Where proposed by the developer, a petition created in accordance with section 632 must be presented to Council.

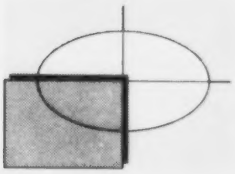
Application:

Development works agreements are typically used to provide services to undeveloped, greenfield areas. The agreements allow a municipality to require a developer to provide significant services in exchange for receiving development approval. The agreements afford some level of comfort to the developer on the issue of cost recovery. The developer knows with some degree of certainty that he or she will recover a portion of the infrastructure monies, complete with interest, from future beneficiaries. Since there is no time limit on the collection of charges (as opposed to latecomer payments), the developer knows that future developers who benefit from the services will not be allowed to connect without paying their fair shares.

Additional Comments:

None.

5.9 DCC Credits and Rebates



Legislative Authority:

Local Government Act, section 933(8).

Description (DCC Credit):

DCC programs are intended to support broader local government growth management plans. More specifically, a DCC program should be designed to provide servicing for new development in an orderly manner which is consistent with the growth-related objectives in the local government's OCP.

In some cases, a developer may wish to proceed with a project before the required trunk services are installed in the particular development area. The local government may decide that such an out-of-sequence development should not proceed, as it conflicts with the government's growth strategy. Alternatively, the local government may allow the project to proceed on the condition that the developer front-end the cost of constructing the necessary trunk services.

Developers who front-end the cost of constructing required trunk services in advance of their proposed timing would be entitled to a DCC credit. Put differently, the cost of constructing the required trunk services would be deducted from the DCC amount that would otherwise have been collected from the developer for the particular class of service. For example, if the developer constructed a section of trunk sewer, the associated capital costs would be deducted from the developer's sewer DCCs, to the maximum DCC amount payable.

Description (DCC Rebate):

Developers are normally responsible for the cost of providing services to a local standard, sufficient to accommodate growth associated with their particular developments. Where a developer wishes to proceed with a development project before the trunk services fronting the development are installed, the developer may, at the local government's discretion, be allowed to construct the services to a trunk – as opposed to local – standard. A municipality that allowed this arrangement would offer the developer a rebate equivalent to the difference between the cost of the trunk service and the cost of the local service.

Implementation:

DCC credits and rebates arise when local governments agree to allow developers to finance the cost of trunk works identified in the local government's DCC program. The DCC credit that a local government offers would be determined by the cost of the trunk works, to the maximum DCC amount payable by the developer. The DCC rebate would be determined by the incremental portion of costs beyond the local requirement.

It is important to note that DCC credits and rebates can only be given for trunk works that are included in the DCC program.

Application:

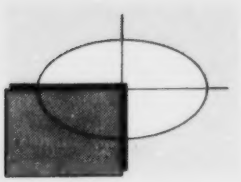
An out-of-sequence development should be carefully considered against the community's growth management objectives, as identified in the OCP. The OCP, supported by the DCC program, is designed to manage growth in a way that promotes both land-use and financial sustainability. Out-of-sequence developments can undermine the effectiveness of the OCP.

Municipal Affairs recommends that local governments explicitly set out, in the DCC bylaw or in a separate policy, the situations in which a DCC credit or rebate would be considered.

Additional Comments:

Additional information on DCC credits and rebates can be found in the *Development Cost Charge Best Practices Guide*.

5.10 DENSITY BONUSING



Legislative Authority:

Local Government Act, section 904.

Description:

Density bonusing is an arrangement under which a local government allows a developer to exceed maximum density levels in a zoning bylaw, in exchange for the provision of low-cost housing units to a non-profit agency, or for the provision of a specific public amenity that benefits the community.

Density bonusing, which is voluntary for developers, is designed as a "win-win" system for both the developer and the local government. The developer benefits by being able to build more floor area in a given project. The local government benefits from the new low-cost housing and/or public amenities secured through the exchange, as well as from the higher tax revenues from the increased floor space.

Implementation:

Density bonusing can be implemented using conventional zoning. Under this approach, the base density and the bonus density, as well as the conditions necessary to achieve the bonus density, are outlined for each zone in the community's zoning bylaw. This approach provides a level of certainty for developers who know that if the bylaw conditions are met, the density bonus must be granted.

Density bonusing can also be implemented using comprehensive development zoning. Under this approach, the provisions for density bonusing are articulated in a development plan (e.g., area plan) or OCP. This approach allows for a case-by-case evaluation of sites, and of the amenities that are required in the neighbourhood. This approach also, however, provides less certainty to the developer.

Whichever approach is taken, it is recommended that a local government consider and clearly articulate some key elements. Specifically, local governments should:

- clearly establish the purpose of the system;
- define the amenities they wish to secure;
- determine the size and type of bonus that will be granted; and,
- determine how to administer the system.

Application:

Density bonusing was first conceived of as a way to encourage the creation of low-income housing in multi-family housing projects. In 1995, the introduction of section 904 (originally section 963.1) of the *Local Government Act* expanded the original intent of density bonusing to allow local governments to use the mechanism to secure public amenities in place of, or in addition to, housing. Under section 904, local governments can grant bonus densities in exchange for contributions toward amenities such as:

- walkways;
- public plazas and open spaces;
- child care facilities;
- landscaping; and,
- off-street parking.

These types of amenities, which are often required to accommodate growth, cannot be secured through the use of standard finance mechanisms such as DCCs and latecomer agreements — hence the attraction for local governments to density bonusing as a tool of development finance. The use of density bonusing in development finance, however, needs to approached carefully. Consider the following points:

- Municipalities should be careful to avoid the two-step practice of:
  - downzoning areas; and,
  - structuring bylaws to offer bonus densities which are equivalent to the original densities.

This way of securing amenities from developers would violate the intent of the legislation.

- Pre-zoning a site for bonus density can affect the appraised value of the site which is, in general, based on the site's highest and best use. A developer who purchases a pre-zoned bonus density site would, in all likelihood, pay a price that reflected the highest and best use assessment. The developer would then also be required to pay the municipality for the bonus density in the form of low-cost housing units and/or public amenities. In essence, developers who purchased and developed pre-zoned density bonus sites would be required to pay twice for the density bonus.

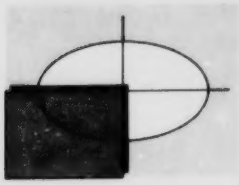
- When using density bonusing, local governments need to consider setting upper limits to bonusing. Density bonusing, if fully implemented, could significantly increase the overall density in a community. Overall density levels need to be considered so that the intent of the community's OCP or zoning bylaw is not undermined, and so that livability in particular neighbourhoods is not threatened.

Section 6.10 of the *Guide* provides further comments on issues and best practices that local governments should review when determining how or whether to use density bonusing as a development finance tool.

Additional Comments:

Local governments interested in learning more about density bonusing should obtain a copy of *Density Bonus Provisions of the Municipal Act: A Guide and Model Bylaw* (1997), published by the Ministry of Municipal Affairs. An issues paper prepared by the Urban Development Institute titled *Bonus Density and Zoning Based Amenity Charges* should also be reviewed to better understand the concerns of the development industry with respect to the use of density bonusing in B.C.

5.11 COMPREHENSIVE DEVELOPMENT AGREEMENTS



Legislative Authority:

Local Government Act section 176.

Description:

Comprehensive development agreements (CDAs) are agreements between a municipality and a developer under which the developer, in exchange for development approval, agrees to provide specific on- or off-site works and/or amenities for the broader community. The works and amenities provided through a CDA are over-and-above the services that would be required to facilitate development of the particular site, and that would be secured through development works agreements, development cost charges and other finance tools. Specific types of works and amenities that might be secured through a CDA would include:

- social housing;
- libraries;
- fire halls;
- transit stations; and,
- various types of "hard" infrastructure.

The rationale for CDAs is that new development should, to the extent possible, have a neutral impact on municipal services. Contributions from developers toward community works and amenities, in exchange for development approval, help to achieve the neutral impact desired.

CDAs, until recently, were available only to the City of Vancouver, whose *Charter* provides the authority to apply "conditions of enactment" to rezoning approvals. The introduction of section 176 in the *Local Government Act*, however, effectively extended the authority for CDAs to all municipalities in the province. Section 176 provides local governments the authority to enter into agreements for the provision of local services.

Implementation:

Municipalities pursue comprehensive development agreements during the zoning approval process. Changes to zoning are granted at the discretion of Councils. The approval process through which changes are considered provides an opportunity for Councils to discuss with developers the need to address broader community goals and infrastructure needs. In many cases, developers themselves propose the terms of the agreements based on an understanding of local needs.

Application:

CDAs are normally considered only for large development – or redevelopment – projects. These projects tend to have an impact on municipal services that is significant and that cannot be addressed through other development finance arrangements. CDAs are used to secure works and amenities that benefit both the project and the surrounding community, and that, in essence, attempt to neutralize the development's impact on the municipality.

Large development projects also tend to be spearheaded by a developer that is capable of funding the services required by the agreement. The costs of the works and amenities provided under a CDA are not recoverable, in whole or in part, from future development that might benefit from the services.

In the City of Vancouver, CDAs – or "conditions of enactment" – are considered only for sites that are 10 acres or larger in size.

Additional Comments:

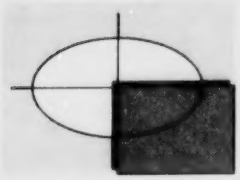
CDAs, by necessity, are negotiated on a case-by-case basis. Factors such as changing economic conditions, variable city-developer relations and the specific needs of the local community serve to make each development project distinct. Notwithstanding the uniqueness of each case, it is important for a municipality to adopt a consistent approach to CDAs. Such an

approach reduces uncertainty for developers which, in turn, reduces transaction costs associated with the negotiating process.

The City of Vancouver promotes consistency in its approach to CDAs by producing a "facilities strategy" for each case. Each strategy identifies the exact works and amenities that are sought by the City from the developer. At present, the City is working to produce a city-wide facilities strategy that goes beyond individual sites to address community needs throughout Vancouver.

The City of Vancouver is also moving toward CDAs that promote partnerships in place of straight contributions from developers. Under the terms of one recent CDA, for example, the developer is cost-sharing with the City a new salt-water intake pipe that will support the City's emergency planning efforts.

5.12 PUBLIC-PRIVATE PARTNERSHIPS



Legislative Authority:

Local Government Act, section 176(1)(a). See also sections: 176(1)(c), 181, 183-185, 344.1.

Description:

For the purpose of this *Guide*, public-private partnerships (P3s) are defined as co-operative ventures in which local governments and private sector entities combine strengths, and share risks and rewards, to develop local infrastructure and community facilities.

The rationale for establishing partnerships is that both the local government and private sector partner have unique strengths and advantages that, when combined, make possible the provision of community works and services that would be difficult for a local government to provide on its own.

The present examples of partnerships around BC and across Canada illustrate that P3s can be structured in a wide variety of ways, and can be used to develop a wide variety of infrastructure. The Ministry of Municipal Affairs' 1999 publication, *Public Private Partnership: A Guide for Local Government*, provides details on the types of structure and their applications.

Implementation:

Experience suggests that the establishment of public-private partnerships is, in most cases, a complex undertaking for local governments. In addition to the need for a P3 policy and procedures, local governments need to assess their organizational capabilities and, if necessary, secure trusted advisors from outside of the organization. The types of expertise required for a public-private partnership include:

- process and project management;
- contract negotiation; and,
- public finance.
- private finance;
- taxation policy and regulations;
- accounting;
- contract law;
- engineering;
- architecture;
- facility operations;
- real estate appraisal;
- marketing and market analysis;
- real estate development;
- asset evaluation;
- quantity surveying; and,
- communications and public relations.

Certain partnership arrangements are subject to counter-petition.

Application:

As a tool of development finance, P3s are well-suited to sizable infrastructure projects that benefit large numbers of people over wide areas (e.g., an entire municipality). Solid and liquid waste treatment plants, for example, are viewed as good P3 candidates.

Recreation centres and entertainment complexes are also viewed as good P3 candidates, not only because of their size and large service area, but also because of their traditional reliance on property taxes for funding. When local governments look beyond tax revenues to develop infrastructure, P3s stand out as one possible option.

P3s may not be well-suited to smaller infrastructure projects that benefit specific areas within a community. The resources required to enter and implement a P3 may outweigh the benefits to the local government on smaller projects. In addition, many private sector companies with the resources and experience necessary to enter P3s will not consider projects that have a construction value of less than $5 million.

Additional Comments:

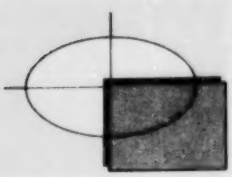
In spite of recent legislative changes (Bill 31,

1998) designed to facilitate partnering with the private sector, P3s have not been eagerly embraced by local governments in BC. The experiences of those municipalities which have explored partnering, successfully and unsuccessfully, illustrate that P3s are, indeed, complex undertakings that require significant financial and staff resources, considerable outside expertise and much patience.

Some larger municipalities have, to be sure, had success with P3s and will undoubtedly continue to use this particular tool for developing and financing new infrastructure. In all, however, local governments should decide to use P3s only after much consideration and with a certain amount of caution.

Local governments interested in learning more about P3s should consult the Ministry's *Public Private Partnership: A Guide for Local Government.*

5.13 PUBLIC-PUBLIC PARTNERSHIPS



Legislative Authority:

Local Government Act, section 176(1)(b).

Description:

Section 176(1)(b) allows local governments to in this case, enter into agreements with a wide variety of public authorities to develop infrastructure and works. The term "public authority" includes:

- other local governments (municipalities, regional districts, improvement districts);
- school boards and other educational bodies (universities and colleges);
- public health care bodies;
- provincial governments;
- federal government;
- First Nations; and,
- a public body in another province or country that provides local government services.

Implementation:

Local governments may enter into an agreement with another public body to develop a wide variety of infrastructure. The only condition is that at least one of the agencies involved in the agreement must have the necessary powers to undertake the activity or work.

A counter-petition process may be necessary in certain agreements. In addition, agreements between a local government and a public body in another province must receive the approval of the Minister of Municipal Affairs. Agreements which involve a public authority in another country (e.g., Washington State, USA) must receive the approval of the Cabinet.

Application:

Agreements with public authorities may be useful in developing large infrastructure projects that have a wide service area. For example, a municipality might partner with a regional district and a library board to develop a civic centre, complete with municipal offices, regional district offices, recreation facilities and a public library.

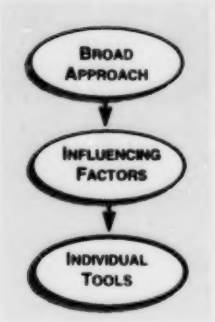
A local government might also partner with a school board and the provincial government to develop a community school, complete with classrooms, social services and sports fields. The local government's interest would be in making the sports fields available to the larger community.

In general, public-public partnerships are seen to involve less risk to the local government than are public-private partnerships. The key reason for this view is that public bodies, unlike their private counterparts, are not subject to bankruptcy, and are therefore less likely to leave the local government "holding the bag".

Additional Comments:

Several municipalities have joint servicing agreements with local school districts. In all, however, public-public partnerships have not been pursued to any great extent. Public partnerships will undoubtedly be turned to by local governments more frequently in the future as more examples of their success and potential become better known.

6. MAKING CHOICES



This section of the *Guide* continues with the review of individual finance tools by evaluating each tool against a series of considerations. The purpose of this section is to help local governments understand the types of conditions to which the individual tools are well suited.

Each tool is evaluated in its own matrix against a common set of considerations. The considerations, which are outlined in figure 6A, include the influencing factors from section 4 of the *Guide*, along with certain financial concerns and factors related to a local government's organizational capacity.

At the end of the section, a summary matrix of the information from the individual matrices is provided.

Best Practices:

The sub-sections on the various tools include recommended best practices to guide local governments in their implementation of the mechanisms. The best practices are based on the experiences of local governments, and are specific to the individual tools.

Standards of Good Government:

In addition to the specific best practices, local governments should be guided by a series of universal standards. These standards, which may be thought of as "standards of good government", should guide the implementation of development finance tools in all cases. In some situations one or more of the standards may take on added significance, and may be paramount in the minds of decision makers. In no case, however, would any of the standards be deemed irrelevant or not applicable.

The key standards of good government that guide the implementation of development finance tools include the following:

- *Equity* — On a basic level, most would

FIGURE 6A
SUMMARY OF CONSIDERATIONS

CONSIDERATIONS	DESCRIPTION
FINANCIAL CONCERNS	
RISK	The financial risk a local government incurs in using a tool.
RELIANCE ON BORROWING	A local government's need to debt-finance works.
CHARACTERISTICS OF DEVELOPMENT	
TYPE OF DEVELOPMENT	Infill, greenfield or a mix of the two types.
VALUE OF PROJECT	The value that a government attaches to a project.
STRUCTURE OF OWNERSHIP	The number of property owners involved in a development.
TIMING OF WORKS	The timing of works relative to development.
BENEFIT OF WORKS	The party that benefits from the works — growth, community-as-a-whole or both.
TYPES OF WORKS	The specific works required (e.g., roads, water, etc.).
NATURE OF DEVELOPMENT INDUSTRY	
STRUCTURE	Refers to the size and number of companies in an area.
EXPERTISE	The level of developers' expertise in finance.
ORGANIZATIONAL CAPACITY	
IMPACT ON OFFICIALS	The amount of time required of elected and appointed officials to design and implement a tool.
EXPERTISE	The level of staff's expertise in finance and related fields.

agree that the standard of equity requires that the cost of infrastructure should be paid by those who benefit from the works.

Existing taxpayers are often not prepared to pay the cost of services which are required solely for growth; similarly, development should not be required to pay for services required by the existing population. Where services benefit both groups, costs should be allocated amongst beneficiaries in a fair and equitable manner.

On another level, equity requires that infrastructure costs assigned to growth be assigned in a way that fairly reflects the capital cost burdens of the various beneficiaries.

The notion of "fair process" is a third dimension of equity. Local governments enjoy a significant level of discretion in their use of certain finance tools such as density bonusing and development works agreements. The application of these tools to different developments should be carried out in a fair manner. A practice of applying different standards to different developments would not promote equity.

- *Flexibility* — The importance of applying tools to different developments in a fair manner does not mean that each development needs to be handled in exactly the same way. Local governments have at their disposal a wide variety of development finance tools, many of which can be implemented in creative ways that are also fair and equitable.

- *Integration* — The implementation of development finance tools should not be attempted in isolation of the local government's land use planning efforts. In many cases, potential problems related to the financing of new infrastructure are anticipated and resolved at the planning stage. By phasing large greenfield developments, for example, a local government can minimize front-end expenditures. By minimizing front-end expenditures, local governments resolve potential problems related to cash flow, and manage potential risks associated with cost recovery.

  Relying solely on the innovative implementation of development finance tools to resolve finance problems is not an effective strategy. Better results are possible when a local government's development finance and land use planning efforts are integrated.

- *Accountability* — The implementation of the various development finance tools must be undertaken in a transparent and open fashion. The development community and the public as a whole should be able to review and understand the policy rationale for certain choices, and the methodologies for determining and applying costs and charges.

  Meaningful consultation – with the development community and the public – is an important element of accountability. Individuals or groups that may be impacted by certain decisions should be consulted during the making of those decisions.

- *Responsibility* — Related to accountability is the standard of responsibility. Local governments must be responsible in their implementation of finance tools. Consider the following dimensions of this standard:

  - Risk management — a decision to use certain tools could place the community in a position of significant financial or legal risk. Local governments need to be aware of the risks associated with different tools and implement the tools in a fashion that minimizes those risks.

  - Return on investment — local governments that directly finance projects need to determine in each case, using cost-benefit analysis or some other test, whether the capital investment is justified.

  - Affordability — in applying charges and rates, a local government needs to be aware of the impact on affordability of housing and serviced land.

  - Consistency with overall approach — a local government should understand the implications of various choices on its

ability to achieve the community's broader goals.

- *Certainty* — The standard of certainty has a number of key dimensions, including the following:

  - Certainty of process — developers need to know that the development approval process, and expectations at various stages of the process, will not change mid-stream.

  - Certainty of legislation — developers should know about, and have input into, proposed bylaw changes well in advance of any changes being made.

  - Certainty of rates — DCC and other rates will change over time, as they should to reflect changes in the value of works and changes to development projections. Rates should not, however, change erratically. Erratic changes make the planning of projects difficult for developers.

  - Certainty of approach — local governments should be predictable and consistent in their implementation of development finance tools.

Variety of Tools Used:

Before continuing with the review of individual tools, it is useful to comment on the extent to which local governments make use of the full range of development finance tools available.

The matrices that follow in this section explore the conditions under which each of the thirteen individual tools works well. In so doing, the matrices attempt to illustrate that each mechanism can, in certain circumstances and when implemented properly, assist local governments in providing new growth-related works.

Readers of this section may form the impression that an effective approach to development finance requires the use of many, if not all, of the thirteen tools. Such an impression would be inaccurate. The reality is that most local governments – including the more "sophisticated" and experienced ones – build their approaches to infrastructure financing around a handful of select tools. These governments have discovered that the community's goals and concerns can often be addressed more effectively through the targeted application of a few tools than through the widespread use of many tools. This reality should be kept in mind when reviewing the *Guide*.

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IMPORTANT NOTE CONCERNING THE FOLLOWING PAGES

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6.1 DEVELOPMENT COST CHARGES

CONSIDERATIONS	DEVELOPMENT COST CHARGES
FINANCIAL CONSIDERATIONS	
RISK	When used as a cost recovery mechanism, DCCs are not risk-free. If development does not occur as projected, the local government may not recover all of its front-end capital costs. Risk can be minimized if a local government commits to postponing DCC works until after sufficient DCC reserves have been accumulated — i.e., commits to using DCCs as a source of capital instead of a cost recovery tool.
RELIANCE ON BORROWING	Local governments which make use of DCCs as a cost recovery tool must themselves front-end the cost of the works. In most cases, the works are front-ended using borrowed funds. Interest charges cannot be recovered using DCCs, although a legislative provision exists for the Inspector of Municipalities to be able to approve directly-related interest costs. The provision has not yet been brought into force (Summer 2000).
CHARACTERISTICS OF DEVELOPMENT	
TYPE OF DEVELOPMENT	Infill and mixed infill-greenfield developments that can benefit from a certain level of servicing already in place are particularly suitable projects. Additional works can often be postponed until after reserves have been accumulated, thereby making borrowing unnecessary.
VALUE OF PROJECT	A local government that is incurring risk will want to ensure that the proposed development brings what the government views to be a long-term benefit to the community. If the risk inherent in DCCs is deemed to outweigh the benefit of the development, other tools should be considered.
STRUCTURE OF OWNERSHIP	DCCs are well suited to developments which involve many owners.
TIMING OF WORKS	Best suited to works which can be postponed, or phased, until reserves have been accumulated.
BENEFIT OF WORKS	Used for works that benefit growth only, and for works that benefit both growth and existing populations. In these latter cases, the contribution of existing owners is usually taken from property tax revenue, as DCCs can only be charged to new development.
TYPE OF WORKS	*Local Government Act* restricts the use of DCCs to roads, water, sewer, drainage and parks.

The *Development Cost Charge Best Practices Guide* published by the Ministry of Municipal Affairs examines in detail the design and implementation of DCCs. Many best practices associated with the use of DCCs are identified in the document. Some of the more important best practices identified are offered here.

DCC Best Practices:

- *Use DCC reserves* — Where possible, local governments should use DCCs as a source of capital, instead of as a cost recovery tool. Put differently, local governments should undertake to finance DCC works using accumulated DCC reserves. Governments that borrow funds for DCC works may not recover their entire expenditure if development does not occur as projected. Governments also cannot include debt servicing charges in DCC rates.

- *Consult the public* — It is important to obtain input from the community before first reading of the DCC bylaw. The input will help the local government better understand the public's views with respect to new development and the government's role in facilitating growth. Such information will aid in the determination of DCC rates and the assist factor.

Considerations	Development Cost Charges
Nature of development industry	
Structure	Not a consideration.
Expertise	Sophisticated developers may prefer more flexible tools such as development works agreements and comprehensive development agreements. Less experienced developers, or developers working on smaller projects, may prefer the simplicity of DCCs.
Organizational capacity	
Impact on officials	DCCs require a significant amount of staff and elected officials' time. Consultation with the development community and the public add to the time required.
Expertise	Most local governments have staff with the expertise required to design and implement DCCs.

- *Be transparent* — The DCC rates, and the methodology used to determine the rates, should be clearly outlined in the relevant background report. The report should be available to the development community and the public-at-large.

- *Establish monitoring system* — A DCC monitoring and accounting system should be set up to facilitate the tracking of projects and the financial status of DCC accounts.

- *Use municipal-wide or region-wide basis* — DCCs for all services should be established on a municipal-wide or region-wide basis, unless a significant disparity exists between those who pay the DCC and the beneficiaries.

- *Match time frame* — The time frame for a DCC program should match the time frames identified in the community's servicing plan, specific area plan and OCP.

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Organizational capacity	
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Expertise	Most local governments have staff with the expertise required to design and implement DCCs.

- *Be transparent* — The DCC rates, and the methodology used to determine the rates, should be clearly outlined in the relevant background report. The report should be available to the development community and the public-at-large.
- *Establish monitoring system* — A DCC monitoring and accounting system should be set up to facilitate the tracking of projects and the financial status of DCC accounts.
- *Use municipal-wide or region-wide basis* — DCCs for all services should be established on a municipal-wide or region-wide basis, unless a significant disparity exists between those who pay the DCC and the beneficiaries.
- *Match time frame* — The time frame for a DCC program should match the time frames identified in the community's servicing plan, specific area plan and OCP.

6.2 LOCAL IMPROVEMENTS

CONSIDERATIONS	LOCAL IMPROVEMENTS
FINANCIAL CONCERNS	
RISK	Municipalities that use local improvements do not expose themselves to significant risk. Local improvement charges are applied to all parcels that benefit from the works. Application of the charges is not dependent on development occurring.
RELIANCE ON BORROWING	Municipalities finance local improvements using funds obtained through conventional borrowing or internal borrowing (i.e., from an established local improvement fund). The interest charges incurred under both types of borrowing can be recovered from benefiting property owners.
CHARACTERISTICS OF DEVELOPMENT	
TYPE OF DEVELOPMENT	Designed to assist municipalities in improving service levels in existing areas. For new development, local improvements are better suited to infill projects in which most of the property owners who approve the new works are the parties who ultimately pay the charges. In greenfield projects, the owners (i.e., developers) who agree to the works are not always the same owners (i.e., homebuyers) who ultimately pay for the works.
VALUE OF PROJECT	The perceived value of a specific project may influence the local government's willingness to cost-share improvements.
STRUCTURE OF OWNERSHIP	Well suited to cases which involve many property owners. In cases which involve one or a few large developers, the local government may wish to consider using developer-build agreements.
TIMING OF WORKS	Suitable in situations where works are required prior to development, and where works can be deferred or phased. Application of charges, and collection of monies, are not dependent on development beginning.
BENEFIT OF WORKS	Suited to infrastructure projects which benefit both growth and the existing population. The local improvement charges can be applied to both groups of property owners.
TYPE OF WORKS	*Local Government Act* restricts use of local improvements (see section 623). In general, local improvements are used for small works with a limited benefit.
NATURE OF DEVELOPMENT INDUSTRY	
STRUCTURE	Better suited to a development industry with many smaller firms.

Local Improvement Best Practices:

It is worthwhile to reiterate that most municipalities do not use local improvements for growth-related infrastructure. Specified areas, which offer greater flexibility to municipal government, are the preferred tool for use with new development. Local improvements are, however, available as an alternative mechanism, and have been used for growth-related works in some places. For these reasons, a review of local improvement best practices is appropriate. Consider the following:

- *Build local area support*— Local improvements proposed by a municipal Council are subject to the counter-petition provision in section 630 of the *Local Government Act*. If, through this provision, the initiative is quashed, the municipality cannot propose the same local improvement again for one year. Prior to proposing local improvements, municipal governments should understand the community's sentiment toward the work.

- *Consider the need for a bylaw*— Section 622(1) of the *Local Government Act* allows a Council, by bylaw, to specify that all or any works that may be undertaken as local improvements must be undertaken as local improvements.

CONSIDERATIONS	LOCAL IMPROVEMENTS
EXPERTISE	Local improvements are not difficult from a developer's perspective. The works are financed by the local government. The parcel taxes are calculated and collected by the local government.
ORGANIZATIONAL CAPACITY	
IMPACT ON OFFICIALS	Local improvement bylaws are not difficult to develop. They can, however, take time. Council-initiated projects, which often require a more substantial public consultation effort, normally have a larger impact on the organization's officials than do community-initiated projects.
EXPERTISE	Limited expertise is required.

Municipalities that adopt such a bylaw will be restricted to using local improvements for certain works, and will not be able to consider using other finance tools which may be better suited to a specific set of circumstances. This type of restriction seems unnecessary. Municipalities should enable themselves to consider the full range of finance tools in all situations.

- *Consider equity* — Many municipalities contribute a certain percentage (e.g., 50%) toward the cost of all local improvement projects using monies from general revenues. When local improvements are used to provide works to established areas, this policy of contributing monies from general revenues seems quite appropriate. When local improvements are used for works which solely benefit growth, this policy is questionable. In effect, municipalities that follow this policy for growth-related works use general revenues to subsidize new development.

  The concern raised in this best practice strengthens the argument against using local improvements for growth-related infrastructure.

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RELIANCE ON BORROWING	Municipalities finance local improvements using funds obtained through conventional borrowing or internal borrowing (i.e., from an established local improvement fund). The interest charges incurred under both types of borrowing can be recovered from benefiting property owners.
TYPE OF DEVELOPMENT	Designed to assist municipalities in improving service levels in existing areas. For new development, local improvements are better suited to infill projects in which most of the property owners who approve the new works are the parties who ultimately pay the charges. In greenfield projects, the owners (i.e., developers) who agree to the works are not always the same owners (i.e., homebuyers) who ultimately pay for the works.
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Considerations	Local Improvements
Expertise	Local improvements are not difficult from a developer's perspective. The works are financed by the local government. The parcel taxes are calculated and collected by the local government.
Organizational capacity — Impact on officials	Local improvement bylaws are not difficult to develop. They can, however, take time. Council-initiated projects, which often require a more substantial public consultation effort, normally have a larger impact on the organization's officials than do community-initiated projects.
Expertise	Limited expertise is required.

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6.3 SPECIFIED AREAS

CONSIDERATIONS	SPECIFIED AREAS
RISK	Municipalities that use specified areas do not expose themselves to significant risk. Specified area charges are applied to parcels that benefit from the works. Application of the charges is not dependent on development occurring.
RELIANCE ON BORROWING	Municipalities rely on some form of borrowing – conventional or internal – to front-end works. Interest charges incurred under both types of borrowing can be recovered from benefiting property owners.
TYPE OF DEVELOPMENT	While specified areas may be used to service both infill or greenfield developments, they are arguably better suited to infill projects in which most of the property owners who approve the new works are the same parties who ultimately pay the charges.
VALUE OF PROJECT	Specified areas may not be well suited to projects which are considered to have broad value, and which are to be cost-shared by growth and the greater community. The *Local Government Act* requires that specified areas which are financed by external or internal borrowing must be paid, in full, by the beneficiaries within the specified area. The community as a whole is not allowed to contribute in such cases.
STRUCTURE OF OWNERSHIP	Well suited to cases which involve many land owners. In cases which involve one or a few large developers, the municipality should consider using a developer-build agreement which would require the developer to front-end the costs.
TIMING OF WORKS	Suitable in situations where works are required prior to development, and where works can be deferred or phased. Application of charges, and collection of monies, are not dependent on development beginning.
BENEFIT OF WORKS	Well suited to infrastructure projects which benefit both growth and the existing population. The specified area charges can be applied to both groups of property owners.
TYPE OF WORKS	Specified areas can be used in connection with any type of service. Work well for smaller, area-specific works and for works which have a larger, community-wide benefit.

Specified Area Best Practices:

Municipalities should consider the following best practices associated with the use of specified areas:

- *Set equitable charges* — Specified area charges can be based on a combination of *ad valorem* taxes, parcel taxes and fees and charges. Municipalities should make use of these elements to design charges which best reflect the servicing impacts of different uses.

- *Build local area support* — Specified area projects proposed by the municipality are subject to the counter-petition provision in section 630. If, through this provision, the initiative is quashed, the municipality cannot re-propose the same works for one year. Prior to initiating specified area works, municipalities should understand the community's sentiment with respect to the work. This recommendation takes on added significance in greenfield developments which involve only a few owners, and in which one owner representing 50% of the property value can defeat an initiative.

- *Provide full information* — Persons who buy homes in established specified areas need to be made fully aware of the annual specified area charges which must be paid, over and above the general municipal taxes. Home

Considerations	Specified Areas
Nature of Development Industry	
Structure	Well suited to a development industry that is comprised of a large number of firms.
Expertise	Specified areas are not difficult from a developer's perspective. The works are financed by the municipality. The charges are calculated and collected by the municipality.
Organizational Capacity	
Impact on Officials	As with local improvements, specified area bylaws can take considerable time to develop, especially when extensive public consultation is involved.
Expertise	Specified areas can be difficult to develop, particularly where charges are based on a combination of *ad valorem* taxes, parcel taxes and fees and charges. Some expertise is required.

buyers in many communities do not fully understand the purpose of the specified area charge, and believe that they are paying a higher general tax rate than others in the same community. Municipalities and developers need to work together to provide full information to prospective home buyers.

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6.4 User Fees and Charges

Considerations	User Fees and Charges
Financial Concerns	
Risk	The risk to local governments associated with user fees and charges is minimal. Late payments and defaults on payments represent the only real risks.
Reliance on Borrowing	User fees and charges are a cost recovery tool. Local governments that choose to make use of this tool must themselves front-end the cost of the works. In many cases, the works are front-ended using borrowed funds.
Characteristics of Development	
Type of Development	Conceivably, could be used to recover part of the cost of providing infrastructure to both infill and greenfield developments.
Value of Project	Well suited to projects which are deemed to have a wide benefit. Fees and charges would normally not account for the entire cost of infrastructure. Community as a whole could contribute all or part of difference.
Structure of Ownership	Suited to projects which involve several owners, none of whom is able to directly finance the required infrastructure.
Timing of Works	Conceivably, could be used to finance part of works that are required before development can begin, as well as works that can be phased to coincide with development.
Benefit of Works	Well suited to works which benefit both growth and existing populations. Fees and charges can be applied to both groups.
Type of Works	Recent changes to the *Local Government Act* allow local governments to apply fees and charges to any type of work under local government jurisdiction.
Nature of Development Industry	
Structure	Not a consideration.
Expertise	Not a consideration. Local government handles the process.
Organizational Capacity	
Impact on Officials	Development of fees and charges can require a significant amount of staff time. Elected officials may also need to spend time discussing the policy rationale for applying fees and charges to infrastructure projects, as opposed to operations.

Fees and Charges Best Practices:

It should be remembered that fees and charges have traditionally been used to assist in funding the operation of local government services. Using fees and charges for growth-related capital projects is not commonplace. Recent changes to the *Local Government Act*, however, provide some opportunity for local governments who wish to recover growth-related infrastructure dollars through fees and charges.

Consider the following best practices:

- *Relate to cost* — User fees and charges that a local government establishes must bear a relationship to the cost of providing the particular service. Recent court challenges highlight the importance of a clear relationship.
- *Be transparent* — Given the need to relate fees and charges to the cost of providing a service, transparency in the establishment of user fees and charges is important. The background report should clearly outline how fees and charges were derived. As per the *Local Government Act*, the report should be publicly available.
- *Consult the public* — Bylaws which establish fees and charges are not subject to an electors assent process. Notwithstanding the

absence of regulation in this area, it is suggested that a local government design and undertake a consultation process to engage and discuss the issue with affected property owners.

EXPERTISE Some expertise required to establish rationale and the actual fees or charges.

- *Involve the lawyers* — The wider use of fees and charges is a relatively recent development under the *Local Government Act*. Prior to implementing fees and charges, local governments should review proposed rates and supporting background documents with their solicitors.

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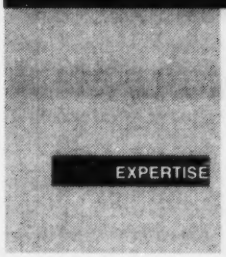

EXPERTISE

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6.5 SHORT-TERM BORROWING

CONSIDERATIONS	SHORT-TERM BORROWING
FINANCIAL CONCERNS	
RISK	There may be risk involved in trying to recover monies obtained through short-term borrowing (in cases where recovery is the objective). Full recovery may not be possible if development does not occur as projected. Funds must be repaid within five years.
RELIANCE ON BORROWING	Local governments that have made the policy decision to incur no debt will not choose to finance works using short-term borrowing.
CHARACTERISTICS OF DEVELOPMENT	
TYPE OF DEVELOPMENT	Suited to infill and greenfield developments. Used in conjunction with cost-recovery tools or to pay for the portion of services used by existing populations.
VALUE OF PROJECT	Can be used, with or without cost recovery tools, to facilitate projects deemed to benefit the community.
STRUCTURE OF OWNERSHIP	Used mostly with cost recovery tools on developments which involve many developers.
TIMING OF WORKS	Best suited to situations where works are not required prior to development. Funds must be repaid within five years; development may not have proceeded sufficiently to recover funds.
BENEFIT OF WORKS	Suitable for works which benefit both new and existing development. Can be used to pay for the existing development portion.
TYPE OF WORKS	Can be used for any type of capital project.
NATURE OF DEVELOPMENT INDUSTRY	
STRUCTURE	Not a consideration.
EXPERTISE	Not a consideration.
ORGANIZATIONAL CAPACITY	
IMPACT ON OFFICIALS	Very little impact on staff and elected officials' time.
EXPERTISE	No expertise is required to design short-term borrowing. The Municipal Finance Authority handles the process for local governments.

Short-term Borrowing Best Practices:

Short-term borrowing, with its $50 *per capita* ceiling, is of limited use to local governments that are undertaking the development of major new works.

Short-term borrowing provides a means for local governments to "top up" other funds, or to provide limited bridge financing. An attempt to rely on short-term borrowing as a major source of capital would be financially unsound.

Consider the following best practices:

- *Plan ahead* — A proper five year financial plan and a comprehensive strategic servicing plan should reduce a local government's need for short-term borrowing on growth-related projects.
- *Watch debt limit* — The $50 *per capita* limit is the aggregate limit for all short-term borrowing. In addition, monies obtained through short-term borrowing counts against a local government's debt limit. Short-term borrowing should be used judiciously in order to leave funds available for projects articulated in the local government's financial plan or capital expenditure program.

6.6 LONG-TERM BORROWING

CONSIDERATIONS	LONG-TERM BORROWING
FINANCIAL CONCERNS	
RISK	The level of risk associated with long-term borrowing varies depending on the particular tool used, in conjunction with borrowing, to recover front-end expenditures. The level of risk can be high when long-term borrowing is used in conjunction with DCCs. The level of risk is, in general, low when used in conjunction with other cost recovery tools that promise full recovery of principal and interest.
RELIANCE ON BORROWING	Local governments that have made the policy decision to incur no debt will not choose to finance works using long-term borrowing.
CHARACTERISTICS OF DEVELOPMENT	
TYPE OF DEVELOPMENT	Well suited for use on both infill and greenfield projects. Appropriateness in any given situation depends largely on the cost recovery tool used.
VALUE OF PROJECT	Often used to finance works, or portions of works, that are deemed to benefit community. In recognition of wider benefit, local government can repay portion of borrowed monies out of property tax revenues.
STRUCTURE OF OWNERSHIP	Long-term borrowing is often necessary in cases where government is required to front-end expenditures. Such cases usually involve several smaller property owners, none of whom is large enough or able to front-end the works.
TIMING OF WORKS	Can be used where works required prior to, or during, development. Appropriateness in any given situation depends largely on the cost recovery tool used.
BENEFIT OF WORKS	Long-term borrowing is a good tool for financing works that benefit both growth and the greater community. The portion of the works to be paid by the greater community can be funded through tax revenues. The portion to be paid by growth can be recovered using a cost recovery tool.
TYPE OF WORKS	As per section 335 of the *Act*, long-term borrowing can be used to finance all types of infrastructure.
NATURE OF DEVELOPMENT INDUSTRY	
STRUCTURE	Useful in communities that feature a large number of smaller firms which are unable to directly finance significant off-site projects.

Long-term Borrowing Best Practices:

Consider the following best practices:

- *Match borrowing term to life cycle* — It is important to match the borrowing term to the expected life span of the infrastructure. When the borrowing term exceeds a project's life span, the party responsible for the debt payments must continue to pay for the works beyond the point at which any benefit from the works is derived. The continuing financial commitment to works which no longer provide benefit may preclude the development of new works, which may also need to be debt-financed.

- *Choose complementary tools carefully* — Long-term borrowing is often used in conjunction with one or more cost recovery tool. The choice of cost recovery tool has implications for the financial risk associated with borrowing that a local government undertakes. DCCs, when used in conjunction with long-term borrowing, represent a risk. Full recovery of borrowed funds is not assured; interest is not recoverable at all.

- *Communicate with public* — Loan authorization bylaws are subject to the counter petition provisions of the *Local Government Act*. Open communication with the public is important to

6.5 SHORT-TERM BORROWING

CONSIDERATIONS	SHORT-TERM BORROWING
FINANCIAL CONCERNS	
RISK	There may be risk involved in trying to recover monies obtained through short-term borrowing (in cases where recovery is the objective). Full recovery may not be possible if development does not occur as projected. Funds must be repaid within five years.
RELIANCE ON BORROWING	Local governments that have made the policy decision to incur no debt will not choose to finance works using short-term borrowing.
CHARACTERISTICS OF DEVELOPMENT	
TYPE OF DEVELOPMENT	Suited to infill and greenfield developments. Used in conjunction with cost-recovery tools or to pay for the portion of services used by existing populations.
VALUE OF PROJECT	Can be used, with or without cost recovery tools, to facilitate projects deemed to benefit the community.
STRUCTURE OF OWNERSHIP	Used mostly with cost recovery tools on developments which involve many developers.
TIMING OF WORKS	Best suited to situations where works are not required prior to development. Funds must be repaid within five years; development may not have proceeded sufficiently to recover funds.
BENEFIT OF WORKS	Suitable for works which benefit both new and existing development. Can be used to pay for the existing development portion.
TYPE OF WORKS	Can be used for any type of capital project.
NATURE OF DEVELOPMENT INDUSTRY	
STRUCTURE	Not a consideration.
EXPERTISE	Not a consideration.
ORGANIZATIONAL CAPACITY	
IMPACT ON OFFICIALS	Very little impact on staff and elected officials' time.
EXPERTISE	No expertise is required to design short-term borrowing. The Municipal Finance Authority handles the process for local governments.

Short-term Borrowing Best Practices:

Short-term borrowing, with its $50 *per capita* ceiling, is of limited use to local governments that are undertaking the development of major new works.

Short-term borrowing provides a means for local governments to "top up" other funds, or to provide limited bridge financing. An attempt to rely on short-term borrowing as a major source of capital would be financially unsound.

Consider the following best practices:

- *Plan ahead* — A proper five year financial plan and a comprehensive strategic servicing plan should reduce a local government's need for short-term borrowing on growth-related projects.
- *Watch debt limit* — The $50 *per capita* limit is the aggregate limit for all short-term borrowing. In addition, monies obtained through short-term borrowing counts against a local government's debt limit. Short-term borrowing should be used judiciously in order to leave funds available for projects articulated in the local government's financial plan or capital expenditure program.

6.6 LONG-TERM BORROWING

CONSIDERATIONS	LONG-TERM BORROWING
FINANCIAL CONCERNS	
RISK	The level of risk associated with long-term borrowing varies depending on the particular tool used, in conjunction with borrowing, to recover front-end expenditures. The level of risk can be high when long-term borrowing is used in conjunction with DCCs. The level of risk is, in general, low when used in conjunction with other cost recovery tools that promise full recovery of principal and interest.
RELIANCE ON BORROWING	Local governments that have made the policy decision to incur no debt will not choose to finance works using long-term borrowing.
CHARACTERISTICS OF DEVELOPMENT	
TYPE OF DEVELOPMENT	Well suited for use on both infill and greenfield projects. Appropriateness in any given situation depends largely on the cost recovery tool used.
VALUE OF PROJECT	Often used to finance works, or portions of works, that are deemed to benefit community. In recognition of wider benefit, local government can repay portion of borrowed monies out of property tax revenues.
STRUCTURE OF OWNERSHIP	Long-term borrowing is often necessary in cases where government is required to front-end expenditures. Such cases usually involve several smaller property owners, none of whom is large enough or able to front-end the works.
TIMING OF WORKS	Can be used where works required prior to, or during, development. Appropriateness in any given situation depends largely on the cost recovery tool used.
BENEFIT OF WORKS	Long-term borrowing is a good tool for financing works that benefit both growth and the greater community. The portion of the works to be paid by the greater community can be funded through tax revenues. The portion to be paid by growth can be recovered using a cost recovery tool.
TYPE OF WORKS	As per section 335 of the *Act*, long-term borrowing can be used to finance all types of infrastructure.
NATURE OF DEVELOPMENT INDUSTRY	
STRUCTURE	Useful in communities that feature a large number of smaller firms which are unable to directly finance significant off-site projects.

Long-term Borrowing Best Practices:

Consider the following best practices:

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- *Choose complementary tools carefully* — Long-term borrowing is often used in conjunction with one or more cost recovery tool. The choice of cost recovery tool has implications for the financial risk associated with borrowing that a local government undertakes. DCCs, when used in conjunction with long-term borrowing, represent a risk. Full recovery of borrowed funds is not assured; interest is not recoverable at all.

- *Communicate with public* — Loan authorization bylaws are subject to the counter petition provisions of the *Local Government Act*. Open communication with the public is important to

CONSIDERATIONS	LONG-TERM BORROWING
EXPERTISE	Not a consideration. Long-term borrowing handled completely by local government.
ORGANIZATIONAL CAPACITY	
IMPACT ON OFFICIALS	Requirement for counter petition may, in some cases, require elected and appointed officials to invest considerable time in a public consultation process.
EXPERTISE	None required. Sale of debentures handled by Municipal Finance Authority.

ensure that the need for borrowing is understood, and key projects are not unduly delayed or cancelled.

6.7 LATECOMER CHARGES

CONSIDERATIONS	LATECOMER CHARGES
FINANCIAL CONCERNS	
RISK	Latecomer charges, as presented in this *Guide*, are a tool used to assist developers in recovering front-end expenditures that they, themselves, make on excess or extended services. The use of latecomer charges does not expose a local government to risk.
RELIANCE ON BORROWING	Infrastructure costs are financed by developers. No reliance on local government borrowing.
CHARACTERISTICS OF DEVELOPMENT	
TYPE OF DEVELOPMENT	Well suited to greenfield developments which require significant excess or extended services before development can begin.
VALUE OF PROJECT	Normally used for projects with value to a specific growth area.
STRUCTURE OF OWNERSHIP	Best suited to developments with at least one large firm that can front-end works.
TIMING OF WORKS	Normally used to provide infrastructure that is required in order for development to begin.
BENEFIT OF WORKS	Best suited to cases where extra capacity intended to benefit growth only.
TYPE OF WORKS	The *Local Government Act* restricts the use of latecomer charges to road, water, sewer and drainage works.
NATURE OF DEVELOPMENT INDUSTRY	
STRUCTURE	Use of latecomer charges normally requires large firms with sufficient resources to front-end the cost of works.
EXPERTISE	Some expertise is required to prepare the documentation on which the charges are based, and to monitor the administration of the system.
ORGANIZATIONAL CAPACITY	
IMPACT ON OFFICIALS	Latecomer charges require a significant amount of staff and elected officials' time. Many policy and technical issues need to be examined.
EXPERTISE	Relatively high degree of staff expertise required.

The *Latecomer Policy: User Manual* (1988) prepared by the Township of Langley examines in detail the design and implementation of latecomer charges. Many best practices associated with the use of this tool are identified in the document. Some of the more important examples of these practices are reproduced here.

Latecomer Charges Best Practices:

- *Limit liability (I)* — It was noted earlier in the *Guide* that developers do not have to apply for latecomer charges. If a local government requires a developer, through a bylaw under section 938, to provide extended or excess services, that developer is automatically entitled to compensation from latecomers. The local government may be liable for compensation not paid.

  In an effort to limit the potential for liability, some local governments require developers to sign waivers which state in effect that unless the developer and the local government have entered into a specific latecomer agreement, the developer is not entitled to compensation from latecomers who may benefit from services which the developer finances.

Considerations	Long-term Borrowing
Expertise	Not a consideration. Long-term borrowing handled completely by local government.
Capacity	
Impact on officials	Requirement for counter petition may, in some cases, require elected and appointed officials to invest considerable time in a public consultation process.
Expertise	None required. Sale of debentures handled by Municipal Finance Authority.

ensure that the need for borrowing is understood, and key projects are not unduly delayed or cancelled.

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EXPERTISE	Some expertise is required to prepare the documentation on which the charges are based, and to monitor the administration of the system.
ORGANIZATIONAL CAPACITY	
IMPACT ON OFFICIALS	Latecomer charges require a significant amount of staff and elected officials' time. Many policy and technical issues need to be examined.
EXPERTISE	Relatively high degree of staff expertise required.

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  In an effort to limit the potential for liability, some local governments require developers to sign waivers which state in effect that unless the developer and the local government have entered into a specific latecomer agreement, the developer is not entitled to compensation from latecomers who may benefit from services which the developer finances.

- *Limit liability (II)* — Some municipalities have required developers to prepare the documentation necessary to calculate the benefiting area and levels of charge. Developers who are unable, or who refuse, to prepare the necessary documents do not become ineligible for compensation from latecomers. In such a case, the local government would likely become liable for the compensation not paid to the developer.

  To limit the potential for this liability, a local government should consider preparing the necessary documentation itself and, where possible, charging the developer for the work performed. Alternatively, the local government should consider simply denying development approval to out-of-sequence projects.

- *Enter into formal agreements* — Formal latecomer agreements between a local government and a developer are required only in situations where one party wishes to limit the collection period of latecomer charges to a time frame that is shorter in duration than the ten years provided under the *Act*. Agreements which use the ten year collection period do not need to be formally documented.

  Notwithstanding the different requirements, it is recommended that formal agreements be constructed in all cases, including those which use the ten year collection period. It is important to establish in writing the various obligations that each party has with respect to the collection and transfer of latecomer charges.

- *Notify property owners* — In some cases, a latecomer charge will not be payable until, or unless, a property owner chooses to connect to a service (e.g., water main) within the ten year statutory period. In these cases, local governments are not required to notify property owners of the future potential charges. In order to promote openness and transparency, however, local governments should undertake to provide full information to owners in all cases.

6.8 DEVELOPMENT WORKS AGREEMENTS

CONSIDERATIONS	DEVELOPMENT WORKS AGREEMENTS
FINANCIAL CONCERNS	
RISK	Municipalities use development works agreements to assist developers in recovering front-end expenditures on works that the developers, under the terms of the agreements, are required to provide. Municipalities that make use of these agreements do not incur risk.
RELIANCE ON BORROWING	Infrastructure costs are financed by developers. No reliance on Municipality borrowing.
CHARACTERISTICS OF DEVELOPMENT	
TYPE OF DEVELOPMENT	Well suited to greenfield developments which require significant excess or extended services before development can begin.
VALUE OF PROJECT	Normally used for projects with value to a specific development works area.
STRUCTURE OF OWNERSHIP	Best suited to developments with at least one large firm that can front-end works.
TIMING OF WORKS	Normally used to provide infrastructure that is required in order for development to begin.
BENEFIT OF WORKS	Best suited to cases where works intended to benefit growth only.
TYPE OF WORKS	The *Local Government Act* restricts the use of development works agreements to road, water, sewer and drainage works, and to parkland improvements.
NATURE OF DEVELOPMENT INDUSTRY	
STRUCTURE	Use of development works agreements normally requires large firms with sufficient resources to front-end the cost of works.
EXPERTISE	Some expertise is required to prepare the documentation on which the charges are based, and to monitor the administration of the system.
ORGANIZATIONAL CAPACITY	
IMPACT ON OFFICIALS	Development works agreements require a significant amount of staff and elected officials' time. Many policy and technical issues need to be examined; many points need to be negotiated.
EXPERTISE	Relatively high degree of staff expertise required.

Development Works Agreements Best Practices:

- *Build local support* — Development works agreements proposed by the municipality are subject to the counter-petition provisions of the *Act*. Prior to initiating development works agreements, municipalities should understand the community's sentiment with respect to the work. This recommendation takes on added significance in greenfield developments which involve only a few owners, and in which one owner representing 50% of the property value can defeat an initiative.
- *Be consistent* — "Consistency" was identified earlier as one of the standards of good government to which municipalities should adhere in their implementation of all tools. It is important, for reasons of consistency, for municipalities to apply similar expectations and rules when negotiating different agreements.

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6.9 DCC Credits and Rebates

Considerations	DCC Credits and Rebates
FINANCIAL CONCERNS	
RISK	DCC credits and rebates expose a local government to little, if any, risk.
RELIANCE ON BORROWING	Infrastructure costs are financed by developers. Rebates, where offered, are paid out of DCC reserves. No reliance on local government borrowing.
CHARACTERISTICS OF DEVELOPMENT	
TYPE OF DEVELOPMENT	Well suited to greenfield developments which require significant excess or extended services before development can begin.
VALUE OF PROJECT	Normally used for projects with specific value to growth area.
STRUCTURE OF OWNERSHIP	Best suited to developments with at least one large firm that can front-end works.
TIMING OF WORKS	Normally used to provide infrastructure that is required in order for development to begin.
BENEFIT OF WORKS	Normally used in cases which benefit growth solely.
TYPE OF WORKS	Use of DCC credits and rebates is limited to the works for which the local government collects DCCs. At most, therefore, credits and rebates can apply only to roads, water, sewer, drainage and parks.
NATURE OF DEVELOPMENT INDUSTRY	
STRUCTURE	Use of DCC credits and rebates normally requires large firms with sufficient resources to front-end the cost of works.
EXPERTISE	Limited expertise required.
ORGANIZATIONAL CAPACITY	
IMPACT ON OFFICIALS	Elected officials will need to consider carefully the impact of allowing out-of-sequence developments – the recipients of DCC credits and rebates – on the local government's growth management objectives (see best practices).
EXPERTISE	Limited technical expertise required. Some policy expertise to advise on impact of out-of-sequence developments on growth management objectives.

DCC Credits and Rebates Best Practices:

- *Consider impact on objectives* — As was noted earlier in the *Guide*, an out-of-sequence development should be carefully considered against the community's growth management objectives, as identified in the OCP. The OCP, supported by the DCC program, is designed to manage growth in a way that promotes both land-use and financial sustainability. Out-of-sequence developments can undermine the effectiveness of the OCP.

6.10 DENSITY BONUSING

CONSIDERATIONS	DENSITY BONUSING
FINANCIAL CONCERNS	
RISK	Little if any risk to local governments.
RELIANCE ON BORROWING	Amenities provided and paid for by developers. No reliance on local government borrowing.
CHARACTERISTICS OF DEVELOPMENT	
TYPE OF DEVELOPMENT	Well suited to either greenfield or infill developments — wherever public amenities are required to help accommodate a growing area.
VALUE OF PROJECT	Used where value limited to specific area.
STRUCTURE OF OWNERSHIP	Not a consideration. Large developers in search of higher densities can provide whole amenities. Small developers in search of higher densities can contribute to the cost of amenities.
TIMING OF WORKS	Timing of development is not dependent on timing of amenities.
BENEFIT OF WORKS	Amenities in greenfield development would tend to benefit growth only. Amenities in infill development would benefit both growth and existing neighbourhood.
TYPE OF WORKS	Density bonusing not intended to provide "hard" infrastructure such as sewer, water and roads. Better suited to provide landscaping, affordable housing, off-street parking, walkways, open spaces, etc.
NATURE OF DEVELOPMENT INDUSTRY	
STRUCTURE	Not a consideration.
EXPERTISE	Some experience, or expertise, in negotiations required where density bonusing implemented through comprehensive zoning.
ORGANIZATIONAL CAPACITY	
IMPACT ON OFFICIALS	Staff and elected officials will need to consider policy issues carefully (see best practices). Staff will need to identify, often with community input, the specific types of amenities needed.
EXPERTISE	Experience in negotiations required where density bonusing implemented through comprehensive zoning.

The *Density Bonus Provisions of the Municipal Act: A Guide and Model Bylaw (1997)*, prepared by the Ministry of Municipal Affairs, examines in detail the use of density bonusing. Many best practices associated with the this tool are identified in the document. The Urban Development Institute's *Bonus Density and Zoning Based Amenity Charges* also provides some useful guidance to local governments in the area of density bonusing. Some of the more important best practices from the two publications are reproduced here.

Density Bonusing Best Practices:

- *Relate amenity to development* — Amenities secured through density bonusing are intended to improve the livability of the area which is built to a higher density. Local governments need to ensure that the amenities they require are related to the development which receives the higher density.
- *Don't use as a tax* — Density bonusing is not a substitute for taxation. Funds collected through a pay-in-lieu system of density bonusing should be reserved for public amenities, not used to provide other required infrastructure (e.g., water, sewer).
- *Set upper limits* — It was suggested earlier that density bonusing, if fully implemented, could

6.9 DCC Credits and Rebates

Considerations	DCC Credits and Rebates
Financial Concerns	
Risk	DCC credits and rebates expose a local government to little, if any, risk.
Reliance on Borrowing	Infrastructure costs are financed by developers. Rebates, where offered, are paid out of DCC reserves. No reliance on local government borrowing.
Characteristics of Development	
Type of Development	Well suited to greenfield developments which require significant excess or extended services before development can begin.
Value of Project	Normally used for projects with specific value to growth area.
Structure of Ownership	Best suited to developments with at least one large firm that can front-end works.
Timing of Works	Normally used to provide infrastructure that is required in order for development to begin.
Benefit of Works	Normally used in cases which benefit growth solely.
Type of Works	Use of DCC credits and rebates is limited to the works for which the local government collects DCCs. At most, therefore, credits and rebates can apply only to roads, water, sewer, drainage and parks.
Nature of Development Industry	
Structure	Use of DCC credits and rebates normally requires large firms with sufficient resources to front-end the cost of works.
Expertise	Limited expertise required.
Organizational Capacity	
Impact on Officials	Elected officials will need to consider carefully the impact of allowing out-of-sequence developments – the recipients of DCC credits and rebates – on the local government's growth management objectives (see best practices).
Expertise	Limited technical expertise required. Some policy expertise to advise on impact of out-of-sequence developments on growth management objectives.

DCC Credits and Rebates Best Practices:

- *Consider impact on objectives* — As was noted earlier in the *Guide*, an out-of-sequence development should be carefully considered against the community's growth management objectives, as identified in the OCP. The OCP, supported by the DCC program, is designed to manage growth in a way that promotes both land-use and financial sustainability. Out-of-sequence developments can undermine the effectiveness of the OCP.

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CONSIDERATIONS	DENSITY BONUSING
FINANCIAL CONCERNS	
RISK	Little if any risk to local governments.
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NATURE OF DEVELOPMENT INDUSTRY	
STRUCTURE	Not a consideration.
EXPERTISE	Some experience, or expertise, in negotiations required where density bonusing implemented through comprehensive zoning.
ORGANIZATIONAL CAPACITY	
IMPACT ON OFFICIALS	Staff and elected officials will need to consider policy issues carefully (see best practices). Staff will need to identify, often with community input, the specific types of amenities needed.
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- *Relate amenity to development* — Amenities secured through density bonusing are intended to improve the livability of the area which is built to a higher density. Local governments need to ensure that the amenities they require are related to the development which receives the higher density.
- *Don't use as a tax* — Density bonusing is not a substitute for taxation. Funds collected through a pay-in-lieu system of density bonusing should be reserved for public amenities, not used to provide other required infrastructure (e.g., water, sewer).
- *Set upper limits* — It was suggested earlier that density bonusing, if fully implemented, could

significantly increase the overall density of a community. The need to protect livability, and the objectives of the OCP, should be considered when examining density bonusing.

- *Be consistent* — Local governments that choose to implement density bonusing through comprehensive zoning should be consistent in their approaches to, and negotiations with, various developers. A consistent approach helps to eliminate uncertainty for developers who choose to participate in density bonusing initiatives, and helps to create a true "win-win" experience.

- *Avoid downzoning* — As noted earlier in section 5.10 of the *Guide*, municipalities must be careful to avoid downzoning areas, then structuring their zoning bylaws to offer bonus densities which are equivalent to the original densities that were permitted. Such an approach would violate the intent of the legislation.

- *Consider Impact of Pre-zoning* — Pre-zoning, which was also mentioned in section 5.10 of the *Guide*, can affect the appraised value of a site. When the value is affected, the developer who purchases and develops the site is effectively required to pay twice for the bonus. The practice of pre-zoning bonus density sites needs to be considered carefully.

6.11 Comprehensive Development Agreements

Considerations	Comprehensive Development Agreements
Financial Concerns	
Risk	Little if any risk to local governments.
Reliance on Borrowing	Works and amenities are provided and paid for by developers. No reliance on local government borrowing.
Characteristics of Development	
Type of Development	Well suited to either large infill (i.e., redevelopment) or greenfield developments.
Value of Project	Used where works and amenities provide value to development area and broader community.
Structure of Ownership	Require one large developer that is able to provide works without expectation of reimbursement.
Timing of Works	Works often required before development can begin.
Benefit of Works	Used in cases where works and amenities benefit both growth and existing populations. Specific extent of benefit depends on type of development (i.e., infill or greenfield).
Type of Works	Used to provide both "hard" and "soft" services.
Nature of Development Industry	
Structure	Need industry with large firms that are able to undertake major development, or redevelopment, projects, and that are able to provide works and amenities.
Expertise	Some expertise in negotiation and, possibly, public relations required.
Organizational Capacity	
Impact on Officials	Significant impact on staff resources. Negotiations for comprehensive development agreements involve many departments and normally take time.
Expertise	Very high level of expertise required to for negotiations and public relations.

Comprehensive Development Agreements Best Practices:

- *Be consistent* — It is important that local governments apply similar expectations and rules when negotiating different agreements.
- *Prepare a strategy* — Local governments should prepare long term strategic plans, or facilities strategies, that clearly outline the community's needs and vision, and the developers' responsibilities. Local governments that use such plans as the basis for comprehensive development agreements will have a strong basis to withstand criticism.

6.11 Comprehensive Development Agreements

Considerations	Comprehensive Development Agreements
FINANCIAL CONCERNS	
RISK	Little if any risk to local governments.
RELIANCE ON BORROWING	Works and amenities are provided and paid for by developers. No reliance on local government borrowing.
CHARACTERISTICS OF DEVELOPMENT	
TYPE OF DEVELOPMENT	Well suited to either large infill (i.e., redevelopment) or greenfield developments.
VALUE OF PROJECT	Used where works and amenities provide value to development area and broader community.
STRUCTURE OF OWNERSHIP	Require one large developer that is able to provide works without expectation of reimbursement.
TIMING OF WORKS	Works often required before development can begin.
BENEFIT OF WORKS	Used in cases where works and amenities benefit both growth and existing populations. Specific extent of benefit depends on type of development (i.e., infill or greenfield).
TYPE OF WORKS	Used to provide both "hard" and "soft" services.
NATURE OF DEVELOPMENT INDUSTRY	
STRUCTURE	Need industry with large firms that are able to undertake major development, or redevelopment, projects, and that are able to provide works and amenities.
EXPERTISE	Some expertise in negotiation and, possibly, public relations required.
ORGANIZATIONAL CAPACITY	
IMPACT ON OFFICIALS	Significant impact on staff resources. Negotiations for comprehensive development agreements involve many departments and normally take time.
EXPERTISE	Very high level of expertise required to for negotiations and public relations.

Comprehensive Development Agreements Best Practices:

- *Be consistent* — It is important that local governments apply similar expectations and rules when negotiating different agreements.
- *Prepare a strategy* — Local governments should prepare long term strategic plans, or facilities strategies, that clearly outline the community's needs and vision, and the developers' responsibilities. Local governments that use such plans as the basis for comprehensive development agreements will have a strong basis to withstand criticism.

6.12 PUBLIC-PRIVATE PARTNERSHIPS

CONSIDERATIONS	PUBLIC-PRIVATE PARTNERSHIPS
FINANCIAL CONCERNS	
RISK	P3s involve a sharing of both risks and rewards amongst partners. In some cases, risk to local government might come from guaranteeing private borrowing. In other cases, risk might come from having to guarantee minimum annual revenues to a venture (e.g., rec centre). In most cases, some degree of financial risk to government is inevitable.
RELIANCE ON BORROWING	Certain P3s may rely on public sector borrowing.
CHARACTERISTICS OF DEVELOPMENT	
TYPE OF DEVELOPMENT	Conceivably, P3s could be used to provide works to specific infill and greenfield developments. In general, however, P3s are used to provide large infrastructure works, such as recreation facilities and sewage treatment plants, that are developed in response to growth over a larger area. These works are not related to specific infill or specific greenfield projects.
VALUE OF PROJECT	P3s are normally used for projects that provide benefit to a large area of the community, if not the entire municipality.
STRUCTURE OF OWNERSHIP	Where a P3 is related to a specific development, the development would likely include at least one large developer, capable of participating in a major infrastructure undertaking.
TIMING OF WORKS	Where a P3 is related to a specific development, could be used to provide works required prior to development, or during development.
BENEFIT OF WORKS	P3 projects are usually designed to benefit larger areas with both growth and existing populations.
TYPE OF WORKS	P3 projects can, conceivably, be used for all types of infrastructure.
NATURE OF DEVELOPMENT INDUSTRY	
STRUCTURE	Not necessarily a consideration. The private partners in a P3 often come from outside of the local community. The considerable size of P3 projects (minimum $5 million) means that there is a limited number of firms available to participate in partnerships.
EXPERTISE	Firms interested in partnering with local governments need a high level of expertise. P3 agreements can be very complex undertakings that require expertise in a variety of business fields.

The document *Public Private Partnership: A Guide for Local Government (1999)*, prepared by the Ministry of Municipal Affairs, provides a number of recommended P3 best practices to local governments. Some of the more important examples, along with others, are offered here.

Public-Private Partnership Best Practices:

- *Be pragmatic* — P3s appear, in some cases, to be pursued for ideological reasons (e.g., the idea that governments should steer more and row less). In order to be of value, P3s must make good business sense. Does partnering with the private sector allow a local government to provide infrastructure that either partner couldn't provide on its own? Are P3s cost effective? Do the benefits to the community outweigh the risks? These types of questions need to be explored before pragmatic decisions on P3s can be made.
- *Adopt a policy* — Local governments interested in P3s should adopt a formal P3 policy. Such a policy will guide staff in initiating and evaluating partnership proposals. The policy will also allow a government to communicate its position on P3s to a variety of stakeholders, including citizens groups and potential partners.

CONSIDERATIONS	PUBLIC-PRIVATE PARTNERSHIPS
ORGANIZATIONAL CAPACITY	
IMPACT ON OFFICIALS	P3s usually take a great deal of time to develop and implement. Staff and elected officials need to devote considerable energy and resources to adequately address several policy and technical issues. Public consultation is often extensive.
EXPERTISE	Expertise in a number of areas is required. Most governments find it necessary to retain a variety of consultants to assist in structuring and implementing partnership deals.

- *Consult the public* — The prospect of partnering with for-profit private companies can raise emotions in some centres. Local governments need to engage citizens and other stakeholders to ensure that the reasons for partnering are understood, and that the merits of proposed arrangements are appreciated. The value of public consultation is underscored by the provisions for counter petition and access to information under the *Local Government Act* and other legislation. A poorly consulted public is, in most cases, more likely to oppose a partnership.

- *Assign responsibility internally* — The local government will need to identify suitable individuals or sections within the organization to take responsibility for P3s. Assigning responsibility to a select group is important in order to ensure that inquiries about P3s are handled in a consistent way, and to provide a single point of contact for private sector interests.

6.12 PUBLIC-PRIVATE PARTNERSHIPS

CONSIDERATIONS	PUBLIC-PRIVATE PARTNERSHIPS
FINANCIAL CONCERNS	
RISK	P3s involve a sharing of both risks and rewards amongst partners. In some cases, risk to local government might come from guaranteeing private borrowing. In other cases, risk might come from having to guarantee minimum annual revenues to a venture (e.g., rec centre). In most cases, some degree of financial risk to government is inevitable.
RELIANCE ON BORROWING	Certain P3s may rely on public sector borrowing.
CHARACTERISTICS OF DEVELOPMENT	
TYPE OF DEVELOPMENT	Conceivably, P3s could be used to provide works to specific infill and greenfield developments. In general, however, P3s are used to provide large infrastructure works, such as recreation facilities and sewage treatment plants, that are developed in response to growth over a larger area. These works are not related to specific infill or specific greenfield projects.
VALUE OF PROJECT	P3s are normally used for projects that provide benefit to a large area of the community, if not the entire municipality.
STRUCTURE OF OWNERSHIP	Where a P3 is related to a specific development, the development would likely include at least one large developer, capable of participating in a major infrastructure undertaking.
TIMING OF WORKS	Where a P3 is related to a specific development, could be used to provide works required prior to development, or during development.
BENEFIT OF WORKS	P3 projects are usually designed to benefit larger areas with both growth and existing populations.
TYPE OF WORKS	P3 projects can, conceivably, be used for all types of infrastructure.
NATURE OF DEVELOPMENT INDUSTRY	
STRUCTURE	Not necessarily a consideration. The private partners in a P3 often come from outside of the local community. The considerable size of P3 projects (minimum $5 million) means that there is a limited number of firms available to participate in partnerships.
EXPERTISE	Firms interested in partnering with local governments need a high level of expertise. P3 agreements can be very complex undertakings that require expertise in a variety of business fields.

The document *Public Private Partnership: A Guide for Local Government (1999)*, prepared by the Ministry of Municipal Affairs, provides a number of recommended P3 best practices to local governments. Some of the more important examples, along with others, are offered here.

Public-Private Partnership Best Practices:

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- *Adopt a policy* — Local governments interested in P3s should adopt a formal P3 policy. Such a policy will guide staff in initiating and evaluating partnership proposals. The policy will also allow a government to communicate its position on P3s to a variety of stakeholders, including citizens groups and potential partners.

Considerations	Public-Private Partnerships
Organizational Capacity	
Impact on Officials	P3s usually take a great deal of time to develop and implement. Staff and elected officials need to devote considerable energy and resources to adequately address several policy and technical issues. Public consultation is often extensive.
Expertise	Expertise in a number of areas is required. Most governments find it necessary to retain a variety of consultants to assist in structuring and implementing partnership deals.

- *Consult the public* — The prospect of partnering with for-profit private companies can raise emotions in some centres. Local governments need to engage citizens and other stakeholders to ensure that the reasons for partnering are understood, and that the merits of proposed arrangements are appreciated. The value of public consultation is underscored by the provisions for counter petition and access to information under the *Local Government Act* and other legislation. A poorly consulted public is, in most cases, more likely to oppose a partnership.

- *Assign responsibility internally* — The local government will need to identify suitable individuals or sections within the organization to take responsibility for P3s. Assigning responsibility to a select group is important in order to ensure that inquiries about P3s are handled in a consistent way, and to provide a single point of contact for private sector interests.

6.13 PUBLIC-PUBLIC PARTNERSHIPS

CONSIDERATIONS	PUBLIC-PUBLIC PARTNERSHIPS
FINANCIAL CONCERNS	
RISK	Local governments incur little risk in partnering with other public agencies. In a practical sense, public agencies are not subject to bankruptcy, and cannot default on loan payments or other financial commitments.
RELIANCE ON BORROWING	Certain P3s (public) may rely on local government borrowing.
CHARACTERISTICS OF DEVELOPMENT	
TYPE OF DEVELOPMENT	P3s (public) are normally used to provide large infrastructure works, such as recreation facilities and civic centres, that are developed in response to general growth. These works are not related to specific infill or greenfield projects.
VALUE OF PROJECT	P3s (public) used on projects deemed to provide benefit to a large area of the community, if not the entire municipality. This broad benefit is usually the reason for the local government becoming involved.
STRUCTURE OF OWNERSHIP	Not a consideration.
TIMING OF WORKS	Development is not dependent on P3 (public) works in order to begin.
BENEFIT OF WORKS	P3 (public) projects are designed to benefit larger areas with both growth and existing populations.
TYPE OF WORKS	P3 (public) projects can, conceivably, be used for all types of infrastructure. In most cases, however, they are used to develop civic infrastructure, such as recreation facilities, libraries, open spaces, etc.
NATURE OF DEVELOPMENT INDUSTRY	
STRUCTURE	Not a consideration.
EXPERTISE	Not a consideration.
ORGANIZATIONAL CAPACITY	
IMPACT ON OFFICIALS	P3s (public) can take considerable time to develop and implement. Staff and elected officials need to devote energy and resources to adequately address the key policy and technical issues. Public consultation is often extensive.
EXPERTISE	Expertise required; however, not as much as with public-*private* partnerships which often involve greater risk for government.

Public-Public Partnerships Best Practices:

- *Consult the public* — In general, citizens are less concerned with the notion of partnering with another public agency than they are with the notion of partnering with a for-profit private company. Nevertheless, it is important to consult citizens on potential P3 (public) agreements. Certain agreements will trigger counter petition provisions in the *Local Government Act*. A lack of meaningful consultation could lead to a successful counter petition process being launched.

6.13 PUBLIC-PUBLIC PARTNERSHIPS

CONSIDERATIONS	PUBLIC-PUBLIC PARTNERSHIPS
FINANCIAL CONCERNS	
RISK	Local governments incur little risk in partnering with other public agencies. In a practical sense, public agencies are not subject to bankruptcy, and cannot default on loan payments or other financial commitments.
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TYPE OF WORKS	P3 (public) projects can, conceivably, be used for all types of infrastructure. In most cases, however, they are used to develop civic infrastructure, such as recreation facilities, libraries, open spaces, etc.
NATURE OF DEVELOPMENT INDUSTRY	
STRUCTURE	Not a consideration.
EXPERTISE	Not a consideration.
ORGANIZATIONAL CAPACITY	
IMPACT ON OFFICIALS	P3s (public) can take considerable time to develop and implement. Staff and elected officials need to devote energy and resources to adequately address the key policy and technical issues. Public consultation is often extensive.
EXPERTISE	Expertise required; however, not as much as with public-*private* partnerships which often involve greater risk for government.

Public-Public Partnerships Best Practices:

- *Consult the public* — In general, citizens are less concerned with the notion of partnering with another public agency than they are with the notion of partnering with a for-profit private company. Nevertheless, it is important to consult citizens on potential P3 (public) agreements. Certain agreements will trigger counter petition provisions in the *Local Government Act*. A lack of meaningful consultation could lead to a successful counter petition process being launched.

6.14 SUMMARY MATRIX

Figure 6.14A in this sub-section summarizes the key points from the individual matrices.

The summary matrix attempts to identify the conditions to which individual tools are, in general, well suited. When reviewing the matrix, it is important to recognize that general statements on the use of tools are difficult to make. Some practitioners will, undoubtedly, be able to point to conditions under which they have successfully used tools that the matrix suggests should be avoided. Others will note that the choice of tools is more a political than a technical exercise, and that some political objectives preclude even the consideration of certain tools, regardless of the conditions present.

Notwithstanding these valid objections, there is value in attempting to offer broad guidance to local governments on the appropriate uses of the different tools.

An examination of the information contained in the summary matrix reveals a number of key findings. This sub-section identifies and discusses these findings.

Key Findings:

Section three of the *Guide* discussed the need for local governments to define a broad approach to the financing of growth-related infrastructure. Two alternative approaches, each at a different end of the spectrum, were identified — a government-centred approach, and a developer-centred approach.

Section five of the *Guide* introduced and categorized the individual development finance tools. The discussion noted that the tools in two categories – cost recovery and sources of capital – support a government-centred approach, while developer-build agreements support a developer-centred approach. Tools in the partnership agreement category do not support either approach exclusively.

This section of the *Guide* has examined more closely the full range of tools under each approach. Consider the following findings from the section's summary matrix:

- *Government-centred approach* — The summary matrix reveals that the cost-recovery and source of capital tools – i.e., the tools used to promote a government-centred approach – do not, with the exception of DCCs, involve risk for local governments. They do, however, rely on local government borrowing.

  In general, cost recovery and source of capital tools are well suited to developments:

  - in infill areas;
  - that are considered to have broad value to the community;
  - that involve many smaller owners, none of whom is capable or willing to front-end major capital expenditures;
  - where works are required either prior to, or during, development;
  - where works are deemed to benefit both growth and existing populations; and,
  - that require a wide variety of growth-related works, not only "hard" services.

  The summary matrix also reveals that cost recovery and source of capital tools are well suited to communities with development industries characterized by many smaller firms with only moderate levels of expertise in finance. Finally, these types of tools do not, in general, have a significant impact on local government organizations, and do not require a tremendous amount of staff expertise to implement.

- *Developer-centred approach* — The matrix indicates that developer-build agreements – i.e., the tools used to promote a developer-centred approach – impose little or no risk on local governments. Moreover, these tools do not rely on local government borrowing.

  In general, developer-build agreements are well suited to developments:

- in greenfield areas;
- whose value is limited to the particular growth area;
- that involve at least one large developer capable of front-ending major infrastructure expenditures;
- where works are required prior to development, and in order for development to occur;
- where works benefit growth solely or primarily; and,
- that require "hard" services, such as water, sewer, drainage and roads (the exception here is density bonusing).

In communities where developer-build agreements are used, the development industry is characterized by a number of large firms, each with some expertise in finance. Local governments that use these tools need to be able to devote, at times, significant resources to design and implementation. Local government organizations also need a relatively high degree of expertise in finance and related fields.

- *Alternate between approaches* — In section three of the *Guide* it was noted that instead of following the same approach to development finance in all situations, many local governments pragmatically alternate between the government-centred and development-centred approaches. The review of the various types of tools used to promote each approach illustrates the value of alternating in this way.

  The summary matrix shows that the tools which promote a government-centred approach, and the tools which promote a developer-centred approach, are best suited to very different development conditions. Local governments that pragmatically alternate between the approaches are able to make use of those tools which are most ideal under the different circumstances.

- *Organizational capacity* — It is worthwhile to highlight the importance of a local government's organizational capacity to this discussion. The effective use of certain tools, particularly those which support a developer-centred approach, requires a high level of organizational development. Staff and elected officials need to devote time and energy to the consideration, design and implementation of these tools. Expertise in a variety of fields is necessary.

  Local governments with the necessary level of organizational development are in a position to alternate between the two key approaches and to realize the advantages from using the different types of tools. Local governments that lack the resources or expertise are, out of necessity, more inclined to follow a government-centred approach exclusively, since the tools which promote this approach are less complex. These organizations, as necessary proponents of the government-centred model, remain directly involved in the financing of growth-related works. The transfer to developers of responsibility for financing is difficult.

FIGURE 6.14A
SUMMARY MATRIX

CONSIDERATIONS	COST RECOVERY TOOLS				SOURCES OF CAPITAL		DEVELOPER-BUILD AGREEMENTS					PARTNERSHIP AGREEMENTS	
	DEVELOPMENT COST CHARGES	LOCAL IMPROVEMENTS	SPECIFIED AREAS	FEES AND CHARGES	SHORT-TERM BORROWING	LONG-TERM BORROWING	LATECOMER CHARGES	DEVELOPMENT WORKS	DCC CREDITS AND REBATES	DENSITY BONUSING	COMPREHENSIVE DEVELOPMENT	PUBLIC-PRIVATE PARTNERSHIPS	PUBLIC-PUBLIC PARTNERSHIPS
FINANCIAL CONCERNS													
RISK	yes, when used as cost recovery	no	no	no	depends on cost recovery tool used	depends on cost recovery tool used	no	no	no	no	no	yes	yes
RELIANCE ON BORROWING	yes, when used as cost recovery	yes	yes	yes	yes	yes	no	no	no	no	no	possibly	possibly
CHARACTERISTICS OF DEVELOPMENT													
TYPE OF PROJECT	infill	infill	infill / greenfield	infill / greenfield	infill / greenfield	infill / greenfield	greenfield	greenfield	greenfield	infill / greenfield	infill / greenfield	not usually related to specific project	not usually related to specific project
VALUE OF PROJECT	since risk involved, best for works deemed to benefit community	where works of value to community (cost-sharing normal)	where value limited to owners in benefitting area	where works of value to community	where works of value to community	where works of value to community	value limited to growth area	value limited to growth area	value limited to growth area	value of amenities limited to specific area	broad community value	broad community value	broad community value
STRUCTURE OF OWNERSHIP	many owners	many owners	many owners	many owners	many owners	many owners	at least one large owner	at least one large owner	at least one large owner	few owners or many owners	at least one large owner	at least one large owner	n/a
TIMING OF WORKS	best where reserves can be accumulated and works deferred	where required prior to, or during, development	where required prior to, or during, development	where required prior to, or during, development	where works not required prior to development	depends on cost recovery tool used	where required prior to development	where required prior to development	where required prior to development	timing of development not dependent on amenities	timing of development may not depend on works	where required prior to, or during, development	where required prior to, or during, development
BENEFIT OF WORKS	where works benefit growth only, or growth and existing pop.	where works benefit growth only, or growth and existing pop.	where works benefit growth only, or growth and existing pop.	where works benefit growth, or growth and existing pop.	where works benefit both growth and existing pop.	where works benefit both growth and existing pop.	where works benefit growth only	where works benefit growth only	where works benefit growth only	where amenities benefit growth, or growth and existing pop.	where amenities benefit growth and existing pop.	where works benefit both growth and existing pop.	where works benefit both growth and existing pop.
TYPE OF WORKS	water, sewer, drainage, roads, parks	limited as per *Municipal Act* s. 623	unlimited	unlimited	unlimited	unlimited	water, sewer, drainage, roads	water, sewer, drainage, roads, parks	works for which DCCs are collected	no "hard" infrastructure	works and/or amenities	unlimited	unlimited
NATURE OF INDUSTRY													
STRUCTURE	many firms	many firms	many firms	n/a	n/a	many firms	large firms required	large firms required	large firms required	n/a	large firms required	large firms required	n/a
EXPERTISE	none required	none required	none required	n/a	n/a	none required	some required to prepare documents and monitor	some required to prepare documents and monitor	moderate level required	some required to negotiate amenities	some required to negotiate; also public relations	very high degree required	n/a
LOCAL GOVERNMENT ORG. CAPACITY													
IMPACT ON OFFICIALS	time / resources required to design	some time required	some time required	time required can be significant	little impact	little impact	significant impact on time and resources	significant impact on time and resources	time required to consider out-of-sequence development	some time required	significant impact on time and resources	very significant impact	significant impact
EXPERTISE	moderate level required	moderate level required	can be complex; expertise required	moderate level required	none required	none required	relatively high level required	relatively high level required	moderate level required	moderate level required	relatively high level required	very high level required	high level required

7. CASE STUDIES

This section of the *Guide* presents three development-finance case studies from high-growth municipalities around the province. The purpose of the case studies is illustrate how, in practice, local governments choose specific development finance tools to suit different circumstances.

Three municipalities are featured in this section: the Town of Ladysmith, the City of Kelowna and the City of Surrey. These three places, together, represent a range of community sizes and high-growth regions of the province.

Format:

Each case study is presented using a standard five-point format:

- brief introduction to the municipality;
- description of the featured development;
- key considerations driving the local government's choice of tools;
- range of tools chosen; and,
- observations.

Maps showing the location of the municipality, and the development within the municipality, have been included with each case study.

7.1 TOWN OF LADYSMITH

Municipality:

The Town of Ladysmith is situated along the 49th parallel on the east coast of Vancouver Island (see figure 7.1A). The Town has a current

FIGURE 7.1A
TOWN OF LADYSMITH

population of approximately 7,000, and an annual growth rate of 2.5%. By 2021, the Town's population is expected to reach 12,000.

Featured Development:

Stonewall Estates is a new residential development located at the southern tip of Ladysmith (see figure 7.1B). The following points highlight the development's key characteristics:

- *Residential development* — Stonewall Estates is a 16-lot single family residential development, completed in late 1999. The development is situated within a special, small-lot R-1a residential zone, which was created by the Town specifically to accommodate 16 parcels.
- *Greenfield* — The project was developed on a greenfield site.
- *Water and Sewer Required* — Water and sewer extensions were the major off-site services required to facilitate development. Some minor road paving was also needed.
- *One Developer* — Stonewall Estates was a project which involved one developer. That developer was the sole landowner on the site.

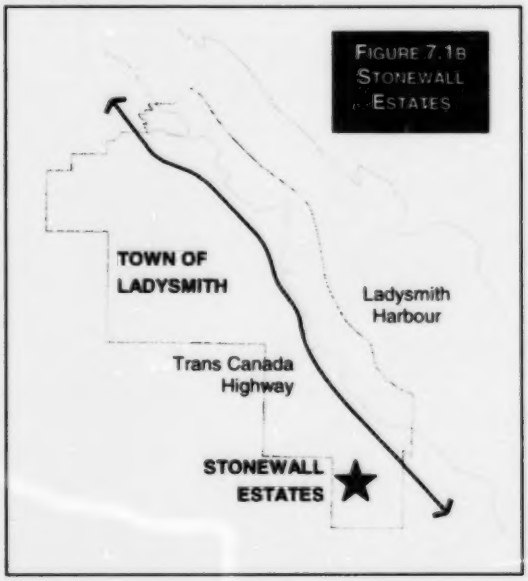


FIGURE 7.1B
STONEWALL ESTATES

- *Official Community Plan* — The Town's OCP (1994) notes that the area in which Stonewall Estates is located is, while amenable to development, unserviced. The OCP notes that "the extension of sewer trunks and water mains to the area will be required prior to development proceeding here" (*OCP*, p.40).

The development of Stonewall Estates cannot be discussed without mentioning the Rothdale Road development, an existing 30-lot single family subdivision situated directly to the south of Stonewall. Prior to the development of Stonewall Estates, water service to the Rothdale Road site was limited but sufficient for residents. Sewer service, however, was a major concern. A small force main and a deteriorating pump station connected the existing subdivision to the Town's main sewer. Sewer services to the site

were in need of upgrade.

Key Considerations:

The Town's approach to servicing Stonewall Estates was determined by a number of key factors. Consider the following points:

- *Developer-centred approach* — In its OCP, Ladysmith notes that the development of greenfield, unserviced land in the community must be preceded by the extension of sewer trunks and water mains. In practice, this policy requires developers of new sites to front-end the cost of new off-site works. The developer of Stonewall Estates was expected to deal, in some fashion, with water and sewer.

- *Residential land-use* — The Town is normally unwilling to front-end costs or borrow monies to facilitate a solely residential development. On a commercial or industrial development, or on a mixed-use project, the municipality is often more willing to directly finance works, on account of the larger benefit to the community which the Town associates with these types of projects.

- *Benefitter pay* — Equity was a major consideration in the Stonewall case. New growth and existing development which stood to benefit from the extended services were expected to pay their fair shares of those services.

- *Benefit to existing neighbours* — The Town recognized that the sewer deficiencies associated with the Rothdale Road subdivision would need to be tackled at some point in the near future. The Town saw the development of Stonewall Estates as an opportunity to address Rothdale Road's sewer issue in a cost-effective manner.

- *Impact on developer* — Through its close dealings with the proponent, the Town knew that the developer's ability to front-end large costs and assume high risk was limited. The Town did not want to jeopardize the feasibility of the project for the developer.

Development Finance Tools:

The tools used to finance the required off-site works are listed here under each type of infrastructure.

- *Water* — A new water main was required to connect Stonewall to the Town's main system 250 metres to the north. A $55,000 portion of the required main was included in the municipality's DCC program. The developer provided this portion and in return received a DCC credit.

  The remainder of the required water main (i.e., the non-DCC portion) was front-ended by the municipality. The front-end costs are being recovered through latecomer charges applied to future development properties.

- *Sewer* — A new sewer trunk was required to link both Stonewall Estates and Rothdale Road to the municipality's sewer system. The portion of the trunk allocated to Rothdale was paid by the municipality out of general reserves. The cost of a pump station for Rothdale was also financed using general revenues. No cost recovery (e.g., through a specified area or local improvement) is planned.

  The remainder of the sewer trunk was cost-shared by the developer and the municipality. The Town agreed to assist in the front-ending of this cost in order to relieve some of the financial pressure on the developer. Both parties are recovering part of their costs through latecomer charges applied to future development.

  Finally, a major easement required for the new sewer trunk was acquired using general reserves. No cost recovery for this expenditure is planned.

- *Roads* — The Town cost-shared, using general reserves, some minor road paving on a collector road which benefits Stonewall Estates and the surrounding area.

Observations:

Stonewall Estates was viewed by the Town as an important development project, in large part because of the opportunity it created to address

the sewer deficiencies at the Rothdale Road subdivision. The Town's interest in seeing the development come to fruition was reflected in the Town's flexible approach to the financing of the off-site works. The Town worked closely with the developer to determine the levels of risk- and cost-sharing that were necessary for the development to proceed.

Other observations on this case study include the following points:

- *Use of latecomers* — The Town chose to use latecomer charges instead of a development works agreement primarily because Town staff had considerable experience in using latecomers. Experimenting with a development works agreement – assuming that the developer would have been interested and/or able – would have required too much staff time.

  Two latecomer charges are being used by the Town to recover its own costs. The Town is confident that all monies will be collected within the 10 year collection period.

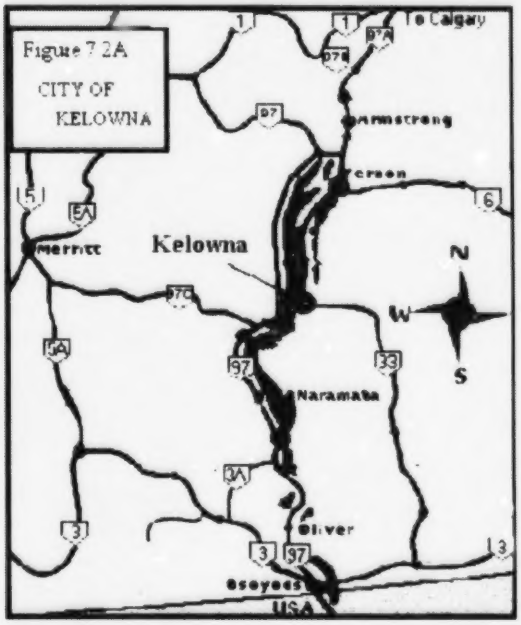
- *Specified areas not used* — Specified areas and local improvements were not considered for use in financing the infrastructure. The Town uses these tools in established areas only.

- *Cost recovery* — Earlier it was noted that Ladysmith used general revenues to finance the sewer components which are deemed to benefit existing residents. The Town does not plan to recover these funds from the properties served by the improved sewer. The Town feels that the cost of the service improvement should be borne by the greater community.

7.2 CITY OF KELOWNA

Municipality:

The City of Kelowna is situated on the east shore of Lake Okanagan in British Columbia's Okanagan Valley (see figure 7.2A). The City has a population of approximately 97,000 and an annual growth rate of 2.5%.

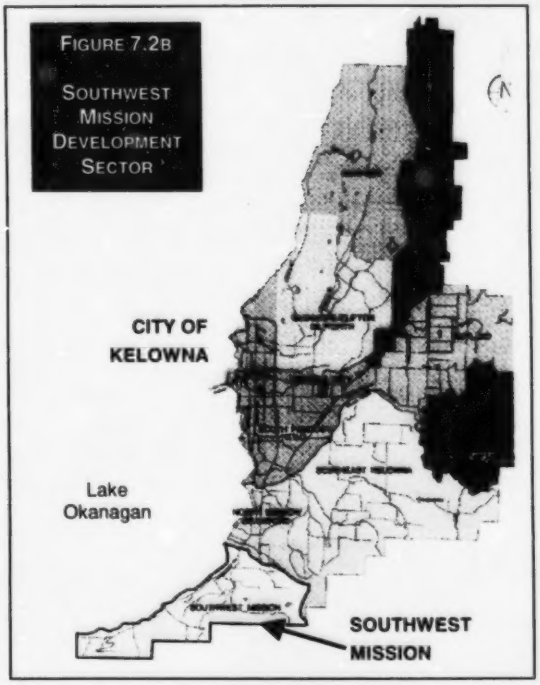


Featured Development:

The Southwest Mission Development Sector is a large new development area located at the southern end of the City (see figure 7.2B). The following points outline the area's key characteristics:

- *Residential development* — The Southwest Mission Development Sector is divided into three major residential neighbourhoods. Neighbourhood 1, in which development has begun, will contain approximately 1,525 single family units at build-out. Neighbourhood 2, in which development is expected to begin before the end of 2000, will contain 1,200 units. Neighbourhood 3 will also contain approximately 1,200 units at build-out. While each neighbourhood will accommodate some limited commercial and institutional uses, the bulk of all development activity will be single family residential.

- *Greenfield* — Each neighbourhood is predominantly greenfield in nature.



- *All works required* — All major off-site services are required, including water, sewer, drainage and roads. In addition, given the large size and peripheral location of the development, schools, parks and sports fields are required.

- *Limited number of developers* — Neighbourhood 1 is being developed by one dominant developer. Three major developers own the sites in neighbourhood 2. Neighbourhood 3 features a single developer.

- *Planning framework* — The Southwest Mission Development Sector is the subject of the City's 1995 *Southwest Mission Sector Plan,* a comprehensive development plan which outlines a strategy to manage growth in the area for the next two decades. The Southwest Mission Sector is also addressed in the City's DCC bylaw, which includes sector-specific charges for water, sewer and road works.

Key Considerations:

In 1973, Kelowna's boundary was expanded to encompass large amounts of unincorporated land surrounding the City, including the area known as Southwest Mission.

At the time, small portions of Southwest Mission had been developed. Large-scale development, however, was not actively pursued until the late 1970s when the City entered into two land use contracts with local developers. These contracts, which set in place the servicing plans required to support a moderate level of growth, were only partially implemented. Changes in market conditions and concerns over servicing costs resulted in the postponement of major development.

By the early 1990s, interest in Southwest Mission as a major development sector had escalated. In response to this interest, the City adopted the 1995 *Southwest Mission Sector Plan* to guide future growth in the area. In drafting the *Plan*, the City identified three important concerns:

- The existing water system was totally inadequate for the area's existing population, let alone any new population. Improvements to the existing system, for existing residents, would be required.

- The City required an additional lake water intake that could eventually be connected and provide benefit to Kelowna's main water system.

- One of the existing land use contracts negotiated in the late 1970s outlined specific financing terms for new development. Major development under these terms would impose additional capital cost burdens on existing City taxpayers, which was unacceptable.

The City recognized that these concerns could best be addressed by treating Southwest Mission as one development area over which substantial infrastructure costs could be spread. The City's ongoing approach to development in Southwest Mission requires that all services necessary to accommodate growth be paid for by growth. Existing taxpayers are expected to pay for improvements that are necessary to correct deficiencies in the existing system, and which clearly benefit the existing population. Existing taxpayers are not, however, expected to contribute to the cost of growth-related works.

Other considerations include the following:

- *Equity* — As suggested already, those who benefit from the works should pay for the works. This principle applies not only in allocating benefits between growth and the existing population, but also in assigning benefits and costs among new development units.

- *Impact on developers* — Developers have been, and will be, required to front-end the cost of certain works. Notwithstanding this position, the City recognizes that some of the required works are too large and too expensive for one or a few developers to finance directly. The installation of new waterworks, which are expected to total $11 million, is a case in point.

- *No borrowing* — The City is resolute in its opposition to borrowing funds for growth-related infrastructure. The financing of such works must rely on developer-build agreements or accumulated DCC reserves.

Development Finance Tools:

As noted earlier, all major works are required for development of the Southwest Mission Sector. Each type of work, and the tools chosen to finance it, are outlined here.

- *Water* — The main developer of neighbourhood 1 installed various components of a new water system, including a water main and pump station, to service early development. The City

determined that four components of the new system had extra capacity that would benefit future development beyond neighbourhood 1. To help the developer recover the cost of providing the extra capacity, the City developed a benefiting area, or "extended service area" (ESA), for each of the four components. Future development that occurs over the next ten years within each of the ESAs will be required to pay a latecomer charge.

The water works constructed by the developer of neighbourhood 1 do not, to be sure, provide water service sufficient for all future development in neighbourhoods 2 and 3. Developers in these other neighbourhoods will be required to front-end some of the necessary water works for their areas. Extra capacity provided by these works will be recovered using latecomer agreements.

The sector DCC program for water in South Mission does not include any of the major works — these works, as noted, are the direct responsibility of developers.

- *Sewer* — The sewer trunks and lift stations required for the Development Sector are included in the City's DCC program. As one would expect, however, the DCC sewer reserves are not sufficient to cover the cost of the major works required. Individual developers, therefore, are expected to front-end the costs in exchange for DCC credits.

- *Drainage* — The actual drainage works required in the area are presently under review. The combination of topography and soil conditions in the Development Sector may reduce the need for large-scale drainage trunks.

  Hydrogeological studies of the area are underway. In the meantime, the City will continue to collect drainage DCCs in the event that major works are required.

- *Roads* — Over the next twenty years, major road works will be required to service needs within Southwest Mission, and to provide adequate arterial connections to the City core.

Given the cost of the future arterial roads program, and the large size of the development area which will need to pay for the program, it was imperative for the City to obtain agreement from the major developers in the area on a cost per development unit for roads, irrespective of the specific demands that particular developments may have on the road network.

After much review, an equitable DCC per equivalent unit was established. A complex decision matrix was also developed to ensure that road needs within the sector could be met, and longer term arterial links to the City could be built.

The construction estimates, on which the DCC per unit rates and the decision matrix were based, needed to be fairly accurate in order to provide some degree of certainty to developers and the City. To achieve the desired level of accuracy, extensive engineering and design were undertaken, the costs of which were front-ended by the major developers in the area in exchange for DCC credits.

The magnitude of the roads program is such that affordability for developers is a concern. Affordability can be enhanced by deferring, to the extent possible, major road works until developers begin to realize significant returns on their developments in the area. Deferring major works is made possible by extending the life and value of existing road networks in the area. In an effort to achieve these deferrals, the major developers in Southwest Mission agreed to the inclusion of temporary improvements to the roads program. These improvement will be "throw-away" in nature, but will, it is expected, delay the need for more expensive upgrades. The inclusion of temporary improvements is being managed to allow all developers within the 20 year planning horizon to avail themselves of this potential opportunity to address cash flow.

The need to obtain rights-of-way for future road projects was another important consideration. An equitable approach to obtaining developer contributions for rights-of-way was required. After a series of discussions with the City, all major developers in the area, irrespective of the

amount of land they were required to dedicate for rights-of-way, agreed to a value of $1.00 per square foot of property as the basis for inclusion of land costs into the DCC model for developer-dedicated lands.

As roads are constructed by various developers within each of the neighbourhoods, the level of DCC credits will need to be carefully managed to ensure that developers are accountable for the actual costs of construction, which may differ from the estimated costs. The DCC credit system has been structured to ensure that major arterial upgrades are constructed only at pre-set "trigger points". These trigger points, which have been determined by the Transportation Division, are tied to specific development thresholds and DCC reserve levels. The "trigger points" guarantee that major arterial projects are only undertaken once sufficient development has occurred, and only after sufficient DCC road reserves have been accumulated.

The approach to financing the arterial roads program for Southwest Mission was crafted through many discussions with the major developers in the area. The City and the developers worked together to create an approach that promises to minimize the financial impact on existing City taxpayers – the chief goal of Council – and that reflects joint concerns related to cash flow and equity. The model which has been developed to track and review ongoing costs is very complex. It requires constant monitoring to ensure that developers at the back end of the planning horizon do not face infrastructure costs which are disproportionately higher than those faced by developers of earlier projects.

- *Other works* — Some of the parks and sports fields that are required in the Southwest Mission Sector will be provided directly by developers as on-site works. Other parks will be developed using a combination of accumulated parkland DCC reserves (into which all development in the area will pay) and public-private partnerships with the School Board. A typical partnership would result in the City and the School Board cost-sharing new fields that would be accessible to both students and the public.

Observations:

The Southwest Mission case study illustrates how a local government, through careful management, can minimize its exposure to financial risk.

The use of ESAs to provide off-site water services is one way the City uses to manage risk. ESAs require the developers to front-end the cost of the water works. The risk associated with recovering the cost of the excess capacity within the 10 year recovery period belongs to the developers.

The way in which the City is using DCCs also demonstrates its ability to manage risk. By tying the phasing of new arterial roads to the amount of development and the size of DCC reserves, the City can ensure that major road projects are financed using monies already collected. DCCs, in this way, are used as a source of capital instead of a method of cost recovery.

Other observations include the following points:

- *Expertise* — The ESAs and the DCCs designed by City staff are complicated programs that require a significant amount of expertise and experience. The developers who are party to these arrangements also require a certain amount of expertise.

- *Equity* — Considerable attention is given to the principle of equity and its various dimensions. The City, for example, is conscious of the need to treat different developers in a similar fashion. Expectations with respect to the front-ending of certain works are uniform.

  Equity also relates to the need for beneficiaries to pay their fair shares.

- *Integration* — The *Southwest Mission Sector Plan* considers all issues related to the future development of the Southwest Mission Development Sector. The DCC bylaw, which includes many of the key works, is consistent with the *Sector Plan*.

  These documents are critical in allowing the City to manage its risk and achieve its other goals.

7.3 CITY OF SURREY

Municipality:

The City of Surrey is located south of the Fraser River in the Greater Vancouver Regional District (see figure 7.3A). The municipality, with a present population of 335,000, is Canada's fastest growing major city.

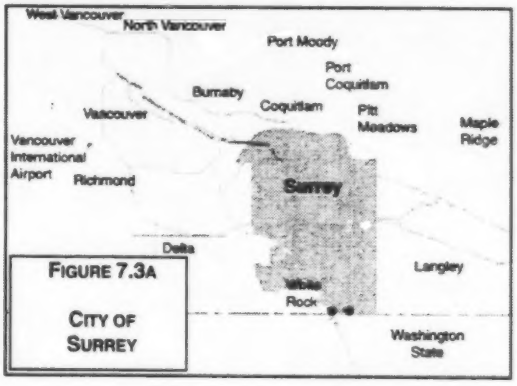


FIGURE 7.3A
CITY OF SURREY

Featured Development:

The West Cloverdale North Neighbourhood is a new residential development situated in the Cloverdale area of East Surrey (see figure 7.3B). The following points highlight the development's key characteristics:

- *Residential development* — The West Cloverdale North Neighbourhood is 100 ha in size. Approximately 1,630 new housing units are expected at build-out, for a total population of 4,575. Most of the new units will be single-family residential, although some street-oriented townhouses will also be developed.
- *Greenfield* — The development is predominantly greenfield in nature. Most land is presently zoned agricultural.
- *All works required* — All major off-site services are required, including water, sewer, drainage and roads. A school site, sports fields, trails and parklands are also required for the neighbourhood.
- *One key developer* — Approximately 70 different developers own parts of the 100 ha site. Certain developers do, however, have larger stakes in the project than do others. One developer, in particular, has played – and will continue to play – a leading role in the planning and financing of the neighbourhood and its various works.
- *Planning framework* — The development of West Cloverdale North is addressed in many key planning documents, including the City's *OCP*, the *West Cloverdale Local Area Plan* and the *West Cloverdale North Neighbourhood Concept Plan*. Surrey's city-wide *10 Year Servicing Program*, which forms the basis of the City's DCC program, includes most of the off-site works.

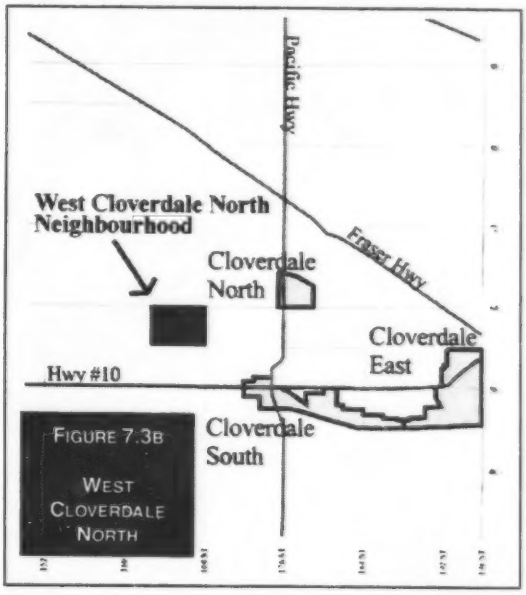


FIGURE 7.3B
WEST CLOVERDALE NORTH

Key Considerations:

The City's approach to development of West Cloverdale North is determined by a number of key considerations, including the following:

- *Developer-centred approach* — There are a total of 14 neighbourhoods governed by neighbourhood concept plans in Surrey.

These neighbourhoods, known as NCPs, are greenfield in nature and, as such, tend to require significant investments in new infrastructure. In 1995, Surrey City Council resolved to approve only those NCPs that can be shown to be self-financing. In adopting this position, the City made it clear that existing taxpayers will not finance NCP infrastructure requirements. Put differently, in adopting the position to approve only self-financing NCPs, the City adopted a developer-centred approach to infrastructure financing.

- *Support development* — Surrey's stated policy is to promote and support development in the community. The City and the development industry, after all, share many of the same goals, including the goal of providing high-quality housing to Surrey's citizens.

  In accordance with the City's policy, Council and staff work with developers to identify changes and to introduce innovations that assist developers in areas such as cost recovery. In the case of West Cloverdale North, new cost recovery arrangements are being made available to assist the developer who has agreed to front-end the key works (see later).

Development Finance Tools:

The concept plan for West Cloverdale North indicates that all major works are required for the development of the neighbourhood. The different types of works, and the tools chosen to finance the works, are outlined here.

- *Water and roads* — Significant improvements are needed to the water supply system that services the neighbourhood. Specifically, an existing main will need to be upgraded, and a new main will need to be constructed. Road system upgrades are also required. Improvements to a collector road are needed to provide better traffic flow through the neighbourhood. Improvements to the City's system of arterial roads are needed to accommodate the increase in traffic to and from the site.

  The required off-site water and road works are included in the City's *10 Year Servicing Program*. None of the projects needs to be undertaken prior to development beginning. As development occurs, therefore, DCCs can be collected and held in reserve until sufficient funds are available to construct the works.

- *Sanitary sewers and drainage* — A small portion of the NCP is within the catchment area of an existing sewer trunk. The bulk of the neighbourhood, however, is not. A new sewer trunk, expected to cost $1.3 million, is required before development can begin. An additional $1.8 million in drainage works is also required before development can begin. The total $3.1 million in sewer and drainage works is included in the City's *10 Year Servicing Plan*; as such, the City will collect DCC monies for the works as development occurs. The problem is one of cash flow — the works are required before the DCCs will be collected.

  In keeping with Surrey's developer-centred approach to development financing, the City is requiring the development industry to front-end the sewer and drainage works. One developer with access to the necessary capital has stepped forward to finance the $3.1 million expenditure so that the NCP can proceed.

  The developer, understandably, is intent on recovering as much of its front-end investment as possible. The City, in keeping with its pledge to support development, is intent on helping the developer with its cost recovery efforts. To that end, the City has entered into both a DCC Frontenders Agreement and a Development Works Agreement with the developer.

  - Under the terms of the DCC Frontenders Agreement, the City will collect sewer and drainage DCCs from development as it occurs in the neighbourhood. The City will forward the collected DCCs (up to a maximum of $3.1 million) to the front-ending developer. The City has placed a time period of ten years on the Frontenders Agreement; however, the City may, at its discretion, extend the Agreement for a further five years.
  - The Development Works Agreement is

being used in conjunction with the DCC Frontenders Agreement to enable the developer to recover the interest charges it will incur in financing the works. The *Local Government Act*, at present, does not allow interest charges, which can be substantial, to be recovered through DCCs.

In the past, Surrey has used Development Works Agreements to recover capital costs that were over and above the amount recoverable from DCCs. The difference in the West Cloverdale North case is that the Development Works Agreement is targeted solely at interest costs. As noted in a January, 2000 Corporate Report, the use of the Development Works Agreement in this fashion provides "an additional mechanism the City can use to assist the development industry in financing projects involving large front ending servicing requirements".

- *Other services* — In addition to the "hard" infrastructure services already reviewed, the City has identified a list of public amenities that are required in order for development to proceed. These amenities include:

  - $526,000 in parkland development (soccer field, trails, joint school site, etc.);
  - $25,000 toward the rehabilitation of a community hall;
  - $75,000 for open space improvements;
  - $188,000 for additional library books;
  - $352,000 for the impact on the City's fire protection services; and,
  - $82,000 for police services.

  The total cost of these amenities is $1.25 million. The City hopes to collect these monies through a density bonus program. In exchange for receiving higher residential densities, developers will pay $763 per unit toward the amenities at the time of subdivision, rezoning or building permit.

Observations:

The West Cloverdale North NCP illustrates the important role that a municipality can play as facilitator of development. By working with the developer to design an innovative cost recovery package, the City has minimized the developer's cost and risk which, in turn, has made the development of the West Cloverdale North a reality.

Other observations include the following points:

- *Innovation and attitude* — The design of a DCC Frontenders Agreement, and the combination of this tool with a Development Works Agreement, are examples of innovative public administration. They are also illustrative of a sincere belief in the value of the development industry, and in the duty of local government officials to assist the industry where possible.

- *Expertise* — Considerable expertise and resources were required on the part of both City staff and the developer in designing the DCC Frontenders Agreement and the Development Works Agreement package. Within City Hall, senior professionals within Development Services, Engineering and Legal Services were involved in fashioning the agreements.

8. CONCLUSION

The *Development Finance Choices Guide* was written to explore the central question of how local governments select which tools to use to finance the infrastructure required to accommodate growth.

A three-step process was introduced early in the *Guide* as the framework for decision-making. The need to define a broad approach to development financing was discussed, a number of influencing factors were identified and thirteen individual finance tools were reviewed. Each tool was described in detail and evaluated against a set of development considerations to help determine which tools are best suited to different situations. Case studies from three communities were presented in an attempt to illustrate how, in practice, local governments choose amongst the various mechanisms.

A key premise on which the *Guide* is based is that the *Local Government Act*, in providing such a wide range of tools, anticipates that local governments will make choices. The *Act* anticipates that local governments will consciously consider and select those tools which, alone or in combination with others, best serve particular needs or situations. The *Guide* has attempted to provide the information required to help local governments make the best selections.

Looking Forward:

The *Guide's* primary value is as a development finance resource for local government practitioners. In order to retain this value, the *Guide* must remain relevant and up-to-date.

The Growth Strategies Office of the Ministry of Municipal Affairs is responsible for ensuring that the *Guide* is updated as required. Local government practitioners, however, also have a role to play in making the *Guide* a living document. The regular submission of comments, examples, lessons learned and other useful information from "the field" will guarantee the value of the *Guide* for years to come.

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http://www.marh.gov.bc.ca/GROWTH/